ABSTRACT
Europe is currently experiencing un-paralleled success and 2015 was a remarkable year for the European startup ecosystem with 10 European software companies reaching billion dollar valuations and over 25,000 meetups held across Europe. Small businesses are the backbone of the EU economy representing 99% of all enterprises and providing some 75 million jobs. Each of them starts with an entrepreneur’s risk and becomes a benefit to us all. However, 90% of startups around the world fail. Why is this?

Authors: Jon Matthew Switters, Valentina Tageo, Laia Pujol
Learning Incrementally from Failed Entrepreneurship: H2020 – GA645000
# Table of Contents

1 Executive Summary ........................................................................................................... 3  
2 Introduction ........................................................................................................................... 5  
3 EU policy background ......................................................................................................... 7  
   3.1 Main EU Policies and Initiatives .................................................................................... 7  
   3.2 EU Funding Programmes ............................................................................................... 9  
   3.3 EU approach to Business Failure and Insolvency ......................................................... 10  
4 Why are Start-ups important to Europe? ............................................................................. 12  
   4.1 EU Start-up ecosystems & the rest of the world ......................................................... 14  
5 The Start-up Lifecycle and Failure ..................................................................................... 17  
   5.1 Discovery .................................................................................................................... 17  
   5.2 Validation ................................................................................................................... 18  
   5.3 Efficiency .................................................................................................................... 18  
   5.4 Scaling ......................................................................................................................... 18  
6 The Factors behind Failure ............................................................................................... 19  
   6.1 The main drivers behind Start-up failure (global perspective) .................................... 19  
   6.2 The main drivers behind Start-up failure (European perspective) ............................. 21  
   6.3 The importance of the team and experienced leaders ................................................. 22  
   6.4 Bottleneck of a start-up: access to capital ............................................................... 23  
   6.5 Premature scaling ....................................................................................................... 29  
   6.6 Lack of unified data protection law in Europe ......................................................... 30  
7 Fear of Failure in Europe .................................................................................................. 32  
   7.1 Key examples from LIFE partner countries ............................................................. 33  
   7.2 The perception of failure elsewhere in Europe ......................................................... 34  
   7.3 Blending innovation and risk management ............................................................... 36  
8 The Role of an Education in Entrepreneurship ................................................................. 38  
   8.1 Primary education ....................................................................................................... 38  
   8.2 Lower and upper secondary education ..................................................................... 39  
   8.3 University and postgraduate .................................................................................... 40  
9 Successful practices and programmes ............................................................................. 42  
   9.1 Available measures facilitating a second chance for failed entrepreneurs ............... 42  
   9.2 Stimulate learning from failure and sharing of lessons learned ............................. 44  
   9.3 Embracing, celebrating and learning from failure as part of the company culture 46  
10 Conclusions .................................................................................................................... 47  
   10.1 PREVENT: Measures to reduce start-up failure in Europe ....................................... 47  
   10.2 RESPOND: Introduce measures to assist failed start-ups ....................................... 48  
   10.3 DISCUSS: Measures to promote positive learning once failure occurs .................. 48  
11 Sources ........................................................................................................................... 49  
   11.1 Reports and articles .................................................................................................. 49  
   11.2 Websites .................................................................................................................... 51  
   11.3 Interviews with LIFE Partners ................................................................................ 53  
12 Annexes ............................................................................................................................ 54  
   12.1 Annex 1: Prevent, Respond, Discuss ......................................................................... 54
1 Executive Summary

Europe is currently experiencing un-paralleled success and 2015 was a remarkable year for the European start-up system with 10 European software companies reaching billion-dollar valuations and over 25,000 tech meetups held across Europe. Small businesses are the backbone of the EU economy representing 99% of all enterprises and providing some 75 million jobs. Each of them starts with an entrepreneur's risk and becomes a benefit to us all. However, 90% of start-ups around the world fail. Why is this?

According to research on the topic, such as the CB Insights report “The Top 20 Reasons Start-ups Fail” published in October 2014, the conclusions suggest that:

- There is rarely one single reason for a start-up failure.
- Across all of these failures, the reasons are very diverse.

“No market need” was mentioned as the number one failure start-ups were tackling problems that were interesting and not those that served a market need. As can be expected, the issue of money also arose during the study. The question of how start-ups should spend their money was a frequent problem and 29% of the failed start-ups mentioned “ran out of cash” as one of the reasons that they failed. Other key reasons why start-ups failed included the lack of a diverse team with complementary skill sets, ignoring the competition and pricing and cost issues. The majority of these failures also tend to occur in the Discovery phase of the start-up lifecycle, when the start-ups are searching for a repeatable and scalable business model, product/market fit.

Entrepreneurship is associated with building a business around an innovation and invention that often involves uncertainty and risk. Risk taking behaviour or the ability to make a bold decision relates to individual perceptions of uncertainty. These perceptions are shaped through identifying oneself in a cultural framework that reinforces certain culturally associated actions and behaviours. Whilst success is highlighted in most societies, failure is also exaggerated and highlighted, attaching many taboos to the latter.

According to the information included in the Global Entrepreneurship Monitor (GEM) country profiles, 2015/2016, all but one of the LIFE partner countries have a fear of failure far greater than that in the USA, where past failure is often perceived as a positive thing by potential investors in a start-up.

In order to stimulate the creation of start-ups and encourage frustrated entrepreneurs to take action and start their own initiatives, it is essential that this negative perception of failure in EU countries be changed.

An education in entrepreneurship is paramount in helping to change mindsets and provide the necessary skills to promote an entrepreneurial and innovative culture. Traditionally, at University, students are encouraged to find “secure” jobs and not become entrepreneurs. This, coupled with the security of Europe’s welfare system can mean that people are less willing to take risks. However, the world of work has completely changed with globalisation, the rapid technological development and dwindling costs of travel, and students need to be prepared to work in fast paced, entrepreneurial and global environments in order to be competitive. Proposals such as a distinct call for more entrepreneurs to collaborate with the universities to provide a more hands on approach to entrepreneurship and the modernisation of the structure of higher education institutes in some countries to be able to offer quality programmes, are necessary.

The EC has been working hard on introducing policies to tackle the stigma of failure and helping promote entrepreneurial activity. They have also introduced a number of funding mechanisms and programmes that specifically target this type or organisation. National initiatives promoting learning from failure can also be seen, although this differs a great deal from country to country. However, in order to continue this work in the fight to reduce failure amongst start-ups in Europe, the following actions are proposed:

**A) PREVENT:** Measures to reduce start-up failure in Europe

**Funding and incentives:**
- Encourage and attract more early stage funding (particularly Business Angels).
- Encourage and attract serious funding opportunities by measures to attract institutional venture capital firms.
- Promote the use of alternative funding mechanisms (such as crowdfunding).

**Education in entrepreneurship:**
- Place a greater emphasis at national level regarding the introduction of an education in entrepreneurship into the school curriculum.
- Change the traditional university structures & encourage entrepreneurs to become educators themselves.
- Build on EU policy and legal framework:

**B) RESPOND:** Measures to assist failed start-ups

**Measures to facilitate second chance:**
- Build on the European policy and legal framework by promoting the adoption of measures at national level on bankruptcy settlement, discharge, second chance advice and support.

**Encourage companies to change their company culture:**
- Encourage companies to change their company cultures to embrace, celebrate and learn from failure.

**C) DISCUSS:** Measures to promote positive learning once failure has occurred

**Spread the word on failure:**
- Create appropriate environments and platforms where peers can share the challenges they have faced and, most importantly, what they have learned from their experience.

The combination of these three measures would reduce people's fear to failure and encourage entrepreneurial activity, strengthening as a result the European start-up ecosystem.
2 Introduction

It is today well understood that Europe, in comparison to other leading and to emerging economies (USA, Japan, South Korea or China), lags behind in innovation capabilities. Analysis shows that the European weakness in this respect is not caused by poor basic research – on the contrary, European research organisations belong to the very best in the world. The weakness is much more related to the transmission from research to market. This is well documented by indicators like the number of patents registered to European companies compared to the number of patents registered to companies from other countries.

But even more striking is the difference in metrics regarding new enterprises. This is in particular worrying since the future wealth and job creation depends always more on small enterprises able to introduce disruptive innovations into the market. The days of relying on large businesses or the government for job creation are over, says the Start-up Manifesto. However, the founding and survival rates for start-ups is worrying low in Europe, much lower than in other developed countries, not to mention emerging economies like China or Brazil.

The LIFE project aims to raise awareness on the importance of a failure acceptance for start-ups success, and about accelerating the learning process from failure for all actors in the ecosystems. One of the specific contributions of the LIFE project will be the focus on overcoming failure and fear of failure as important cultural impediment to entrepreneurship in Europe.

This study has been carried out within the framework of Work Package 5, which deals with evaluation. Originally, its aim was to evaluate the services included in the project, but in the course of the project, a change in focus occurred. The European Commission emphasised the need to have a broader perspective, providing a systematic overview on failure in Europe, its size and underlying factors. This report now aims to cover the full scope of the project priorities, not only WP5. In order to do this, it is important to highlight the work already being carried out by the project:

**Work Package 2 Collaborative Learning:** A survey with 160+ start-ups was carried out throughout the LIFE partner countries, covering a range of issues from the problems encountered to the satisfaction with the assistance given by the service providers. Whilst the results from these surveys were not fully conclusive and might not be exhaustive in understanding the actual key factors behind failure, they do offer a key insight as to the “perceived problems” faced by start-ups.

**Work Package 5 Evaluation** Within the LIFE project, 56 interviews were carried out: one with each of the 14 partners in the project itself and 42 with service providers outside of the project with a strong focus on business angels and venture capital firms. The companies and organisations that were interviewed were located in 12 different European countries. The survey covered the reasons behind failure from the service provider perspective, offering a bird’s-eye view on the main factors behind start-up failure, and going into detail in issues such as funding, education, the perception of failure and best practices. A literature review has also been carried out covering several issues related to the overall failure rates in Europe, and partially about the key factors behind failure. The results from this desk research are included in this report and have been compared to the results from the surveys.

The following elements will be combined to draw conclusions on the issue:

---

2 A manifesto for entrepreneurship & innovation to power growth in the EU, available at: start-upmanifesto.eu

3 www.economist.com/node/21559618
The available literature is mainly focused on global figures with much of the research coming from the USA. We have used this research as a basis for our study (Perspective 3), fine tuning the information with the research that has been carried out during the LIFE project using European-specific approach (Perspectives 1 & 2). Each chapter starts with a general approach, focussing on European examples and comparisons towards the end.

Key issues regarding the failure of start-ups in Europe will be addressed in a systematic approach, including:

- How is the EU approaching the issue of failure with start-ups? What are the main policies, initiatives, programmes in place?
- Why are start-ups important to Europe in the first place?
- What are the main problems that start-ups encounter? How many start-ups fail in Europe?
- What are the principal factors behind start-up failure?
- How is failure perceived in Europe? Does this hold back entrepreneurship initiatives?
- Can the role of entrepreneurship in the European education systems be strengthened to prevent failures and increase the entrepreneurial ecosystem?
- What best practices can be highlighted to stimulate learning from failure in Europe?

**What's new?** The first iteration of the report was completed in December 2015, with this second iteration updating and complementing the results in October 2016 including:

- input from the 42 interviews carried out with service providers
- updating of figures and data from new reports and research released in 2016 (where possible)
- re-structuring of the main conclusions.
- development of the Summary Document “Prevent, Respond, Discuss” (See Annex 1).
3 EU policy background

Although the GDP was up by 0.3% in the euro area and by 0.4% in the EU28 during the second quarter of 2016, +1.6% and +1.8% respectively compared with the second quarter of 2015, economic conditions are still highly challenging. However, the growing importance of internet-driven economic growth is expected to transform this picture by helping improve the lives of millions of people, providing new jobs, new facilities and hopes for a better future. This could clearly help Europe secure its prospects for the future, but further action is needed to be done.

It has been observed that entrepreneurship, which has been the engine for growth in the United States, has not been developed in an efficient way in Europe. Therefore, we must ensure we have the policies, modes of operation and the ambition to succeed. In this next chapter, we will focus on some of the programmes and initiatives in place for start-ups and SMEs in Europe. We then dig deeper into the policies and programmes focused specifically on bankruptcy and second chance schemes will be discussed later on in chapter 9.1.

3.1 Main EU Policies and Initiatives

The Digital Agenda for Europe

The aim of the Digital Agenda for Europe is to help businesses and citizens to get the most out of digital technologies in an attempt to positively trigger the European economy. It was launched in May 2010 and aims to deliver sustainable economic and social benefits from a digital single market, overcoming the patchy pan-European policy framework in place up until this date. The agenda includes 101 different actions that are monitored via the Digital Agenda Scoreboard that is published annually.

The Digital Agenda for Europe particularly focuses on start-ups through the actions that it sets out to move towards a consumer-friendly digital single market. It is under this challenge that the European Commission’s Start-up Europe Action Plan was established.

Start-up Europe Partnership

The Start-up Europe Partnerships (SEP) is a platform established by the European Commission in January 2014, and is dedicated to helping European start-ups to develop and grow by linking them with global corporations.

SEP works with corporates interested in innovative start-ups with real involvement in their projects. It assists start-ups to enter to an elite club where they can have access to many established companies and potential investors in their products or services. Then, SEP organises matching and networking events and networks in different places across Europe where selected start-ups meet with corporations.

A manifesto for entrepreneurship & innovation to power growth in the EU

The Vice-President of the European Commission, Neelie Kroes, has created The Start-up Europe Leaders Club, an independent group of founders in the area of tech entrepreneurship who provide direction on empowering business conditions for web entrepreneurs in Europe. In March 2013, she asked them to elaborate a manifesto for economic growth. Since June 2013, the initial recommendations have been supported

---

4 www.ec.europa.eu/eurostat/documents/2995521/7590656/2-12082016-BP-EN.pdf/5f4b863e-e886-46fa-894c-351fb274c276
6 www.start-up-europepartnership.eu/
by the Founders Forum in London, a community of the best global entrepreneurs, inspiring CEOs and key investors in media and technology.

The result of this meeting was a manifesto with several useful actions that, if implemented, could provide European businesses with the best chance of future success. The 22 actions included in this singular digital growth plan for the EU are related to education and skills, access to talent, access to capital, data policy, protection and privacy, and thought leadership.

The Small Business Act

The Small Business Act (SBA) is a comprehensive EU framework for policy on Small and Medium sized Enterprises (SMEs). The objective of the SBA is to improve the approach to entrepreneurship in Europe by removing barriers to the development of SMEs and by simplifying the legal and policy environment. A review was carried out of the SBA in 2011 in an attempt to monitor its implementation and to integrate it with the Europe 2020 strategy.

The Entrepreneurship 2020 Action Plan

In 2012, the European Commission launched the Entrepreneurship Action Plan in an attempt to unleash Europe’s entrepreneurial potential by removing current obstacles and revolutionising entrepreneurship culture in the EU. It also aims to facilitate the creation of new businesses and generate a supportive environment for existing entrepreneurs to thrive and grow.

Three main areas for immediate action are identified in the Action Plan:

1) Entrepreneurial education and training to support growth and business creation.
2) Removing existing administrative barriers and supporting entrepreneurs in crucial phases of the business lifecycle.
3) Reigniting the culture of entrepreneurship in Europe and nurturing the new generation of entrepreneurs.

The actions in the plan will be followed up by the EC through the Competitive and Industrial Policy and the Small Business Act governance mechanisms. The implementation of the plan will be driven at national level through the network of SME envoys, set up during the review of the Small Business Act in 2011.

The Digital Single Market

The Digital Single Market Strategy was adopted on the 6th of May 2015, including 16 initiatives to be delivered by the end of 2016. The aim of the strategy is to make the EU’s single market fit the digital age by removing regulatory walls from 28 national markets to create a single one. This strategy could contribute to €425 billion per year for the European economy and create hundreds of thousands of new jobs. The three main pillars in this strategy include:

1) Improving access to digital goods and services.
2) An environment where digital networks and services can prosper.
3) Digital as a driver for growth.

This strategy has served as a background document for the more recent Start-up and Scale-up initiative (see below).

The Start-up and Scale-up Initiative

7 www.start-upmanifesto.eu/
9 https://ec.europa.eu/priorities/digital-single-market_en
This Initiative, launched by the European Commission in November 2016\(^\text{10}\), aims to provide the many entrepreneurs that operate in Europe with “every opportunity to become world leading companies”. The idea behind this document is to pull together all of the possibilities that the EU already offers and to add a new focus on venture capital, insolvency law and taxation.

The main emphasis of this initiative will be focused on:

1) **Improved access to finance**: through the launch of a pan-European Venture Capital Fund of funds.

2) **Second chance for entrepreneurs**: through a legislative proposal on the insolvency law that will help companies in financial difficulties to restructure early on so as to prevent bankruptcy and avoid laying off staff.

3) **Simpler tax filings**: through a range of taxation simplifications including the recent proposal for a Common Consolidated Corporate Tax Base (CCCTB).

Finally, it will also help navigate regulatory requirements, improving innovation support through reforms to the Horizon 2020 programme, and fostering ecosystems where start-ups can connect with potential partners such as investors, business partners, universities and research centres.

### 3.2 EU Funding Programmes

**EASME**

The Executive Agency for Small and Medium-sized Enterprises (EASME) was created by the European Commission to manage several EU programmes including most of COSME, the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs) and part of Horizon 2020, the EU Framework Programme for Research and Innovation.

Its goal is to help create a more competitive and resource-efficient European economy based on knowledge and innovation by providing them high quality support, turning EU policy into action\(^\text{11}\).

**H2020**

Horizon 2020 is the Framework Programme for Research and Innovation of the European Union for the period 2014-2020. It has a total budget of 77,028 M€ to finance initiatives and research projects, technological development, demonstration and innovation of clear European added value.

The programme was created to support the implementation of the "Europe 2020" strategy and the flagship initiative "Innovation Union" contributing directly to address

---


\(^{11}\) www.ec.europa.eu/easme/en/about-easme
mainly challenges of the society, to create and maintain industry leadership in Europe, as well as, to strengthen the excellence of the science base, essential for the sustainability, prosperity and welfare in Europe in the long term. Start-up Europe channels its funding for start-ups through the Horizon 2020.

**COSME**

COSME is the EU programme for the Competitiveness of Enterprises and SMEs, operating from 2014 to 2020 with a budget of 2.3€ billion. COSME will support SMEs by facilitating access to finance, supporting internationalisation and access to markets, creating an environment favourable to competitiveness, encouraging an entrepreneurial culture. As previously mentioned, this programme will be managed by the EASME on behalf of the European Commission.

**ERASMUS for young entrepreneurs**

Erasmus for Young Entrepreneurs is a programme which consists of providing practical and financial assistance for new entrepreneurs staying with an experienced host entrepreneur in another EU country. It aims to help new and ambitious entrepreneurs gain useful skills to run and grow a business by working with an expert entrepreneur in another country for one to six months. The general objective of this programme is to facilitate the exchange of experience, learning and networking for new EU entrepreneurs.

**EUROSTARS2**

Eurostars supports international innovative projects led by research and development-performing small and medium-sized enterprises (R&D-performing SMEs). It supports the development of smartly commercial innovative products, processes and services that help improve the daily lives of people around the world. Eurostars has been developed to fit the specific needs of SMEs. It is an ideal first step in international cooperation, enabling small businesses to combine and share expertise and benefit from working beyond national borders. Eurostars aims to bring increased value to the economy, higher growth and more job opportunities. Eurostars 2 is the second phase of the intensive support to SMEs in R&D in order to develop market-oriented transnational projects (the first took place during the period 2007-2013).

### 3.3 EU approach to Business Failure and Insolvency

“Risk of bankruptcy is what Europeans fear most about setting up a new business. 50% of Europeans agree with the statement “You should not start a business if it might fail”, compared with just 28% in the US and 37% in China.”

In order to try and tackle this issue and overcome the stigma of business failure, the European Commission has launched various initiatives. In 2007, the EC released a communication on “Overcoming the stigma of business failure – for a second chance policy”, inviting EU countries to overcome the stigma of business failure within the framework of the promotion of entrepreneurship under the Growth and Jobs Strategy. Principle II of the Small Business Act for Europe (2008), also called “promotion of a second chance for honest entrepreneurs”, encourages member states to promote a

---

15 [www.eurostars-eureka.eu](http://www.eurostars-eureka.eu)
16 Flash Eurobarometer 354, European Commission, 2012
George Savile, Marquis of Halifax
positive attitude in society towards giving entrepreneurs a new start, aiming to complete all legal procedures to wind up the business in the case of non-fraudulent bankruptcy within a certain timeframe and ensure that re-starters are treated on equal footing as new start-ups.

Further actions on this issue include the 2010 report from Expert Group “Prevention of Bankruptcy, Simplification of Bankruptcy Procedures and Support for a Fresh Start”, the 2013 Commission Communication “Entrepreneurship2020 Action Plan” and the 2013/14 Study on ”Discharge periods and court procedures”

More recently, the rise in the number of bankruptcies during the financial crisis (estimated at 200,000 companies per year) encouraged a new European Approach to business failure and insolvency stating that honest failed entrepreneurs ought to have a second chance after bankruptcy. This new approach will give viable enterprises that are facing financial problems access to national insolvency frameworks that help them to restructure at an early stage to prevent insolvency and to give entrepreneurs a second chance regardless of their location in the European Union17.

The objectives of this new European approach are to modernise the insolvency procedures and change focus towards saving and restructuring businesses that find themselves in difficulties, promote economic recovery and retain value in viable companies, safeguard jobs, overcome forum shopping in a single EU market, balanced consideration of the interests of the creditors, differentiate between honest and dishonest bankruptcies and simplify legal procedures for bankruptcies.

In addition to legal simplification, this new approach will also aim to work on areas such as Prevention, Non-discrimination and Increased support:

- Prevention of companies entering any court proceedings: Early warning and self-assessment services, out of court arrangements etc.
- Non-discrimination of failed entrepreneurs by facilitating their reintegration and reducing the stigma of bankruptcies: No prohibitions, limitations, facilitate access to start-up funding and access to public procurement.
- Increased support: Specific support for re-entrepreneurs in areas such as the liquidation and resolution of past business, the reorganisation of professional and private life and restarting a business.

According to the study “Bankruptcy and second chance for honest bankrupt entrepreneurs” carried out by Ecorys for DG Enterprise and Industry (2014), just like the case of insolvency rules, the national rules on second chance also differ a great deal amongst the EU member states, with a distinct variation in the discharge procedures. The study goes on to state that many of the countries have committed themselves to addressing second chance measures in their future legislation. Following the review of the Small Business Act in 2011, Member States also agreed that the timeframe for debt settlement and discharge should be no longer than 3 years.

The “Doing Business” report produced by the World Bank (2012)18 recognised that since the financial crisis, changes in insolvency regimes have been made by 65 countries. Furthermore, Spain, Denmark, Italy, Latvia and Austria have also passed legislation in recent years to make it easier to restructure insolvent companies.

The more recent Start-up and Scale-up initiative by the European Commission (2016) will, no doubt spur on these national initiatives, as it brings together previous efforts at

EU level on this issue. A key part of this initiative will focus on providing a "Second chance for entrepreneurs" through a legislative proposal on the insolvency law that will help companies in financial difficulties to restructure early on to prevent bankruptcy and avoid laying off staff. It will also make it easier for honest entrepreneurs to benefit from a second chance without being penalised for not succeeding in previous business ventures, fully discharging them of their debt after a maximum period (3 years).

4 Why are Start-ups important to Europe?

Small businesses are the backbone of the EU economy representing 99% of all enterprises and providing some 75 million jobs. Each of them starts with an entrepreneur's risk and becomes a benefit to us all.

A prerequisite for improving the prospects of growth and employment in the EU is improving the overall enterprise environment. Specifically, in this report the authors concentrate on start-ups with a particular focus on tech start-ups.

For years, investors treated start-ups as smaller versions of large companies; today it is widely recognised that there is a vast ideological (and organisational) difference between a start-up, small business, and large corporation, which need different funding strategies and KPIs.

According to serial entrepreneur and Silicon Valley legend Steve Blank, a start-up is a "temporary organisation designed to search for a repeatable and scalable business model". A start-up is searching to not only prove their business model, but to do so quickly, in a way that will have a significant impact on the current market. Actually, Steve Blank argues that in the context of the tech industry (and this report) "start-up" should be short for "scalable start-up".

Figure 1: Start-up first principles, Steve Blank

This represents the first major difference between the start-up and the small business: the driving force behind the two business models is different. The intent of the start-up founder is to disrupt the market with a scalable and impactful business model; whereas

---


the intent of the small business owner is to be her own boss and secure a place in the local market.\textsuperscript{21}

The very nature of start-ups makes them appropriate vehicles for testing and commercialising new technologies, products, services, and business models for the benefit of consumers.\textsuperscript{22} Start-ups are not marginal players in the modern economy. Young firms (five years old or less) accounted for only about 20% of non-financial business sector employment over the past decade, but generated nearly half of all new jobs, according to the OECD. According to SEP Monitor and the Scale-Up Report on UK Economic Growth, a growing number of them are turning into Scaleups, i.e. companies able to produce revenue, employment and innovation at a scale.

Therefore, if we take action now to focus on start-ups and scale-ups, we will secure significant growth in jobs, taxes, wealth and the competitive advantage of Europe for generations to come.

In an increasingly complex business context, the rules for new value creation have changed. In the New Economy, no organisation is an island and the value comes from the network. Value creation will increasingly depend on networks and ecosystems and less on closed systems. The way innovation is done in large companies is changing: it has become more “open,” and more based on a broader, collaborative “ecosystem.” “Open Innovation”, “co-creation” and “collaboration” have become much more than buzzwords. The best way to embrace this new context is by setting up the bridges to work with start-ups and paving the way for innovation ecosystems to emerge and develop, so start-ups are able to scale-up and accelerate the reach to market on our and other agents’ contribution to this vision.

Thus, a key objective for national and European decision makers is to facilitate business creation by improving the business start-up environment and, consequently, stimulate entrepreneurship as a whole.

This can be achieved by reducing the administrative impediments to doing business in the EU and reducing distortionary or burdensome taxes, as well as by making it cheaper and easier to start a business and ensuring access to capital for new and growing businesses. The EU has taken an important step in this area by making it possible to start a business within a week in most EU countries, and facilitating the process through a one-stop shop.

Yet, the enterprise environments vary greatly across member countries and much remains to be achieved in this area.

Moreover, apart from legislative, administrative and country-specific barriers to overcome, there is a certain mindset entrepreneurs must cultivate to grow, understand and lead their business. Business leaders who attain this mindset are the ones who ultimately succeed.

The LIFE project is indeed centred on one of the skills that constitutes this mindset, i.e. the ability to learn incrementally from failure and it aims to tackle the stigma of failure.

The purpose of this chapter is to deeply understand start-up failure and analyse the factors determining success (and failure) throughout their lifecycle through desk research performed on the most important publications and studies issued on this subject.

\textsuperscript{21} Emily Pope, Here’s the difference between a start-up and a small business, August 2014, posted on www.blog.generalassemb.ly/difference-between-a-start-up-and-a-small-business/

\textsuperscript{22} Start-up Europe Partnership, An Open Letter to support the scale-up of the start-up ecosystem in the EU, November 2014, posted on www.start-upeuropepartnership.eu/an-open-letter-to-support-the-scale-up-of-the-start-up-ecosystem-in-the-eu/.
4.1 EU Start-up ecosystems & the rest of the world

Start-up ecosystems are rapidly growing throughout the world and an interconnected, global start-up landscape is taking shape. According to research carried out by the Venture Capital firm Atomico, created by Skype co-founder Niklas Zennström and based in London, most start-ups that achieved a $1 billion valuation came from outside the Silicon Valley. According to Zennström, there is an "irreversible trend" of more of these unicorns forming outside the US because of the explosion of start-up ecosystems on a global scale.

The article "The US Breeds The Most Unicorns, But The Rest Of The World Is Catching Up" published on techcrunch.com, makes a deeper analysis of this Zennström’s research. It states that of the 136 companies that had reached the $1 billion dollar point after an IPO, sale or publicly-declared funding round over the past 10 years, 61% of them were created outside of the Bay Area.

Further research from Atomico Ventures in their report "The State of European Tech: 2016 Edition" states that 2016 was a remarkable year for the European Start-up Ecosystem, achieving a series of milestones that are highlighted below:

- SAP reached $100 billion valuation.
- Softbank recently acquired ARM for $32 billion.
- Tencent bought Supercell for over $10 billion.
- 2/3 of Europe’s largest cooperations (by market capital) have invested in at least one tech company, while over 1/3 has acquired a tech business since 2015.
- Deal volume and capital inflow remain at record levels in Europe.
- Promising new hubs are emerging in Munich, Zurich, Copenhagen and Lisbon.
- Over the past 12 months, European deep tech has seen M&A deals worth $88 billion.

However, whilst great achievements have been made, the report goes on to state that the Mission is not accomplished yet. The ecosystem has failed to bridge the late-stage funding gap between the US and Europe, there is still a debate as to whether European companies are selling too early in their lifecycle and not enough effort is being put into encouraging more women into tech. The following stage for the European ecosystem will bring about its own challenges such as: How can we create billion tens or hundreds of billion dollar companies? and How do we bridge what remains a significant late stage funding gap?

The findings from the 2015 Global Start-up Ecosystem Ranking, a study involving 11,000 surveys by entrepreneurs and experts and 200 interviews across 25 different countries, also offer good insights on this issue. In the report we can see that regarding exit value, whilst Silicon Valley has been growing at 47% over the past two years (2013-2014), some European hubs have been growing at a much faster rate such as Berlin (X20), Amsterdam (X4), London (X4). The extremely rapid growth in Berlin is primarily to do with the two big IPOs of German companies Rocket Internet and Zalando.

Furthermore, whilst the top EU ecosystems are experiencing much more rapid growth than their US counterparts, the volume of exits in 2014 was still on average 82% higher in the US than in Europe.

23 www.atomico.com/explore-d3
24 www.techcrunch.com/2014/10/28/the-us-breeds-the-most-unicorns-but-the-rest-of-the-world-is-catching-up/
26 www.blog.start-upcompass.co/the-2015-global-start-up-ecosystem-ranking-is-live
27 www.tech.co/top-20-start-up-ecosystems-ranked-2015-07
Table 1: Full Exit Growth Table: (2013-2014, 2-year moving average), Compass

<table>
<thead>
<tr>
<th>Start-up Ecosystem</th>
<th>Growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berlin</td>
<td>20x</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>5x</td>
</tr>
<tr>
<td>Bangalore</td>
<td>4x</td>
</tr>
<tr>
<td>London</td>
<td>4x</td>
</tr>
<tr>
<td>Sao Paulo</td>
<td>3x</td>
</tr>
<tr>
<td>Seattle</td>
<td>2.6x</td>
</tr>
<tr>
<td>Austin</td>
<td>2.6x</td>
</tr>
<tr>
<td>Boston</td>
<td>2.5x</td>
</tr>
<tr>
<td>Vancouver</td>
<td>2.1x</td>
</tr>
<tr>
<td>Tel Aviv</td>
<td>1.7x</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>1.5x</td>
</tr>
<tr>
<td>Silicon Valley</td>
<td>1.5x</td>
</tr>
<tr>
<td>New York City</td>
<td>1.4x</td>
</tr>
<tr>
<td>Singapore</td>
<td>1.2x</td>
</tr>
<tr>
<td>Paris</td>
<td>1.2x</td>
</tr>
<tr>
<td>Chicago</td>
<td>1x</td>
</tr>
<tr>
<td>Moscow</td>
<td>1x</td>
</tr>
<tr>
<td>Montreal</td>
<td>1x</td>
</tr>
</tbody>
</table>

Looking towards the future, Silicon Valley is expected to stay in the lead in terms of exits, even though the other ecosystems continue to experience rapid growth. According to the study, the final convergence will be similar to an 80/20 power law:

- Silicon Valley: 30-50% total exit pie
- Next three ecosystems: 30-50% total exit pie
- Remaining 16 ecosystems: 20% of the total exit pie

The research by Atomico also suggests that, despite increased growth rates elsewhere outside of Silicon Valley, the majority of companies will still emerge or scale-up from Silicon Valley because this is the base for the most likely buyers of high growth tech companies such as Google, Apple and Facebook.
The models benchmark like Spotify (SE)

**Spotlight**

Spotify sets a benchmark with its social media marketing tools

Spotify was launched in 2008 and disrupted the way music is distributed. The company itself is a technology venture, which allows users to listen to music online and to develop and share playlists with friends. The difference between Spotify and its competitors is that it is not just a product but a social media marketing strategy in itself.

The internet has revolutionised the global music industry over the past two decades, forcing the industry to change strategies and develop more innovative business models. From the development of the MP3 format in the 1990s to the explosion of internet-based file sharing platforms such as Napster in 1999, a first attempt to legitimise the downloading of music was not until 2002 when Apple launched its iTunes Music Store to immediate success. The quick increase in broadband speed and penetration over the last decade has paved the way for cloud computing, allowing users to access files without the need for local storage, and therefore spawning a number of start-ups, including Spotify.

One of the main reasons that Spotify has been so successful in adding users so quickly is due to its links with social media sites. For example a Facebook (FB) account is currently required to register on the site. Spotify takes advantage of its FB page and Twitter stream to promote their products and gain feedback in a similar way as many other firms. However, Spotify has gone one step further, introducing a number of innovations to incorporate social media more intensively into its product in order to enhance the user experience, particularly with FB: songs can be played by a single click, songs played by FB friends appear in news feed, songs can be sent to FB friends from Spotify using FB messages. Spotify adapted its business model to ensure that the integration with FB would attract users. They are now embedded in each other’s platforms, enhancing the value of both.

Spotify has also effectively used social media feeds to create a buzz amongst users. When initially launched in the US in 2011, it used scarce invitations in a market with high demand (after success in Europe) to drum up hype about the launch. It coupled this with a collaboration agreement with Klout, a site that rates people’s influence on Twitter, FB and LinkedIn, offering 100,000 invites to US users who had a sufficient Klout score. This guaranteed that Spotify would reach those users who were most likely to talk about the service through social media and within communities that value their opinion.

Spotify has also shown its ability adapt by changing its pricing model ahead of its integration with FB. Initially the service was used by fans who wanted to listen to a wide variety of music. As they began to appear on people’s news feeds on FB, they were exposed to a much larger audience. In order to attract new users, Spotify changed previous restrictions for users with free or ad-supported accounts (10 hours per month, 5 plays per song), allowing them to have six months unlimited listening.

Spotify’s innovations in social media are driven by the belief that music is social. Indeed, music has become truly social.

---

5 The Start-up Lifecycle and Failure

A Start-up, or innovative SME, as said before, is entrepreneurship in the form of a company, designed to search for a repeatable and scalable business model. These companies, generally newly created by young students or entrepreneurs, are seeking for disruptive innovation in a process of development and research for target markets and uncovered needs.

Start-ups are not smaller versions of larger companies. Paul Graham, English venture capitalist and co-founder of Viaweb (after Yahoo! Store), defined start-up as a company designed to grow: is not necessary to work on technology, or take venture funding, or have some sort of exit. The only essential thing is growth.

Nevertheless, 90% of start-ups around the world fail. What do we need to know about the successful 10%? How can we recognise a potentially successful business model and what improves its ability to scale? What are the main risk factors, and how they can mitigate them and prevent failure?

With reference to small businesses, the answers provided by the experts can be summarised as follows: “regardless of the industry, failure is the result of either the lack of management skills or lack of proper capitalisation or both” Mason, Moya K. (2015), What Causes Small Businesses to Fail?, www.moyak.com/papers/small-business-failure.html.

Nevertheless, when talking about start-ups and, particularly tech start-ups, the answer might be more complex due to the nature of start-up itself, the phase of the start-up lifecycle the company is in and the specific factors related to the ecosystem and the country where the company is established.

Before going deeply in the examinations of the reasons to fail, we would like to illustrate which is the most widely accepted model for start-up lifecycle (the same model has been used to categorise start-ups that participated in the LIFE survey conducted within WP2 to identify common strands for collaborative learning and action). Firstly, it is crucial to deeply understand the life cycle a start-up usually goes through and categorise the start-ups under analysis according to the phase they are in. The following step will be to characterise the most common reasons for failure in each one of the lifecycle phases: 1) Discovery, 2) Validation, 3) Efficiency, 4) Scaling.

5.1 Discovery

Start-ups go through a series of steps before they become a company. In this first one, the goal of a start-up is to search for a repeatable and scalable business model. It typically takes multiple iterations to find product/market fit – the match between what you’re building and who will buy it. The fundamental purpose is focused on validating whether they are solving a meaningful problem and whether anybody would hypothetically be interested in their solution.

For all types of start-up, the time for the discovery and creation of a new small company is around 5-7 months. The team is formed (often only 3/4 people), many customer interviews are conducted, value proposition is found, minimally viable products are created, team joins an accelerator or incubator, friends and family financing round, first mentors & advisors come on board. Most start-ups die here because they not work to create a solid base to growth or because there is no market need.

5.2 Validation
Now the organisation needs to put in place culture, training, product management, processes, and procedures (i.e. writing the HR manual, sales company plan, expense reports, branding guidelines, etc.). This build phase typically begins with around 40 employees and will last to at least 150 employees. At north of about 40 people, a start-up company needs to change into one that can scale by growing customers/users/payers at a rate that allows the company to: achieve positive cash flow (make more money than it spends) and/or generate users at a rate that can be monetised. Start-ups are looking to get early validation that people are interested in their product through the exchange of money or attention.

5.3 Efficiency
In this step, start-ups refine their business model and improve the efficiency of their customer acquisition process. The company should be able to efficiently acquire customers in order to avoid scaling with a “leaky bucket”. Events as refinement of core features, initial user growth, metrics and analytics implementation, seed funding or first key hire should be done. Efficiency efforts are aimed at cutting down costs, enabling more effective business communication, and improving the speed by which products or services are developed and delivered. It is about doing things better and faster without sacrificing the quality of outcomes. A tech start-up can be efficient by having a clear set of goals, both long-term and short-term ones. There’s a need to have a clear sense of direction, to know what ought to be done and how things should be done. Additionally, efficiency is achieved by adopting a clear-cut set of policies and standards. Business processes should be carefully thought out to do things in the shortest possible time, while yielding the best possible results.

5.4 Scaling
The final step is fundamental for the successful of start-up. They have to scale the business or to be prey of it. Scalability is synonymous to being dynamic, so it only makes sense that start-up managers should learn how to think and act dynamically. It’s essential to be watchful of market conditions, threats, and opportunities to formulate and implement appropriate strategies and avoid losses or make the most of growth opportunities. Massive customer acquisition, back-end scalability improvements, first executive hires, process implementation, establishment of departments are the main events. In the growth phase the company has achieved liquidity (an IPO, or has been bought or merged into a larger company event) and is growing by repeatable processes.
6 The Factors behind Failure

6.1 The main drivers behind Start-up failure (global perspective)

CB Insights released their report “The Top 20 Reasons Start-ups Fail” in October 2014, carrying out more than 101 start-up post mortems to see if this question could be answered. The two main results from their analysis suggest that:

- There is rarely one single reason for a start-up failure.
- Across all of these failures, the reasons are very diverse.

After processing all of the information, CB Insights produced a list of the 20 most frequently cited reasons for failure. As you can see from the following chart, it doesn’t add up to 100% (it exceeds it by far), this is due to the fact that many start-ups offered multiple reasons for their failure.

Figure 2: The Top 20 Reasons Start-ups Fail, www.cbinsights.com

In an attempt to dig deeper into the reasons behind these failures, we have focused below on the top 5 most popular reasons that were mentioned by the failed start-ups during the interviews.

No market need: As can be seen from the chart above, the number one reason for failure (in a notable 42% of cases) was that the start-ups were tackling problems that were interesting and not those that served a market need. As a representative from one of the interviewed start-ups, Patient Communicator, wrote, “I realised, essentially, that we had no customers because no one was really interested in the model we were pitching. Doctors want more patients, not an efficient office.”

Ran out of cash: As can be expected, the issue of money also arose during the study. The question of how start-ups should spend their money was a frequent problem and was mentioned by 29% of the failed start-ups. As explained by some of the interviewees, running out of cash was often tied to other reasons such as product-market fit and failed pivots.

Not the right team: The lack of a diverse team with complementary skill sets also features high on the list of reasons for failures, cited by 23% of the failed start-ups. The lack of a strong technical or business profile in the team were mentioned in the report.
along with the need for someone who balances or carries out regular reviews of the business and technology decisions being made.

Get outcompeted: 19% of the failed start-ups interviewed mentioned that ignoring the competition played an important part in their downfall. Whilst obsessing about the competition is also not encouraged, they need to be taken into account. The fact of the matter is that when an idea gets hot or achieves market validation, there may be an influx of competitors into a market space and you have to be ready to compete.

Pricing / Cost issues: Pricing is a sticky subject when it comes to the success of a start-up. 18% of the start-ups highlighted this as one of the reasons why they failed, facing difficulties in establishing prices that were not too high or too low enough to make money.

Building on the study by CB Insights, the American monthly publication Inc. went further to state that the reasons for failures could be assigned to emotional or intellectual limitations. The article, titled “The 7 real reasons why start-ups fail (and what to do instead)”, groups the 20 reasons for failure into 7 different categories. The publication highlights the fact that start-ups are more likely to succeed when their founders “understand, admit and compensate for their own personal limitations”.

Table 2: Start-up failures seen as emotional or intellectual limitations

<table>
<thead>
<tr>
<th>1. Arrogance (85%)</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failures from CB Insights</td>
<td>Confidence is a good thing in entrepreneurship, as without it, very few people would start their own businesses. However, overconfidence can become arrogance when you are so believe so much in your ideas that you fail to keep touch with what is happening in the market.</td>
</tr>
<tr>
<td>• No Market Need: 47%</td>
<td></td>
</tr>
<tr>
<td>• Product Miss-timed: 13%</td>
<td></td>
</tr>
<tr>
<td>• Need or Lack of Business Model: 17%</td>
<td></td>
</tr>
<tr>
<td>• Not Using Network/Advisors: 8%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Short sightedness (55%)</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failures from CB Insights Report</td>
<td>Start-ups cannot plan everything, and whilst over planning should be avoided, failure to plan enough can cause start-ups to fail.</td>
</tr>
<tr>
<td>• Running Out of Cash: 29%</td>
<td></td>
</tr>
<tr>
<td>• Pricing/Cost Issues: 18%</td>
<td></td>
</tr>
<tr>
<td>• No Financing/Investor Interest: 8%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. Hubris (47%)</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failures from CB Insights Report</td>
<td>Many entrepreneurs think that if you build a superior product, the clients will come knocking at your door. Due to this, sales and marketing efforts can often take a back seat, something that can lead to failure.</td>
</tr>
<tr>
<td>• Getting Outcompeted: 19%</td>
<td></td>
</tr>
<tr>
<td>• Poor Marketing: 14%</td>
<td></td>
</tr>
<tr>
<td>• Ignoring Customers: 14%</td>
<td></td>
</tr>
</tbody>
</table>
4. Egotism (36%)

<table>
<thead>
<tr>
<th>Failures from CB Insights Report</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Not the Right Team: 23%</td>
<td>Successful start-ups require a talented team of people with experience and a variety of different skill sets. However, starting a business is a team effort and it only takes one weak link for the overall mission to fail.</td>
</tr>
<tr>
<td>• Disharmony amongst Team/Investors: 13%</td>
<td></td>
</tr>
</tbody>
</table>

5. Sloppiness (34%)

<table>
<thead>
<tr>
<th>Failures from CB Insights Report</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Poor Product: 17%</td>
<td>Entrepreneurs have to make a continued effort to ensure that do the best possible job at all times. Unlike large companies, should mistakes occur, they are unable to live on their brand or throw money at the problem.</td>
</tr>
<tr>
<td>• Bad Location: 9%</td>
<td></td>
</tr>
<tr>
<td>• Legal Challenges: 8%</td>
<td></td>
</tr>
</tbody>
</table>

6. Imbalance (30%)

<table>
<thead>
<tr>
<th>Failures from CB Insights Report</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Loss of Focus: 13%</td>
<td>There is a wealth of material published on the need to have a work/life balance in order to avoid stress and bad decision-making. However, many start-ups work non-stop, something that can lead to imbalance and failure.</td>
</tr>
<tr>
<td>• Lack of Passion: 9%</td>
<td></td>
</tr>
<tr>
<td>• Burning Out: 8%</td>
<td></td>
</tr>
</tbody>
</table>

7. Inflexibility (17%)

<table>
<thead>
<tr>
<th>Failures from CB Insights Report</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Pivot gone bad: 10%</td>
<td>One positive aspect about start-ups is their ability to manoeuvre. If something isn’t going right, they can change course or pivot. However, as humans, we are not prone to making changes and often pursue paths that have already been proven not to work.</td>
</tr>
<tr>
<td>• Failure to Pivot: 7%</td>
<td></td>
</tr>
</tbody>
</table>

6.2 The main drivers behind Start-up failure (European perspective)

Within the LIFE project, 56 interviews were carried out one with each of the 14 partners in the project itself and 42 with service providers outside of the project with a strong focus on business angels and venture capital firms. The companies and organisations interviewed were located in 12 different European countries.

A section of these interviews was dedicated to the factors behind start-up failure in Europe, offering the perspective of the service providers (accelerators, networks, incubators, business angels, venture capital firms etc.) on this issue. The added benefit
of discussing this topic with the service providers is that they work/are in contact with a variety of different start-ups on a day-to-day basis and have a birds-eye view as to why they fail.

One of the key findings from these interviews is that over half of the interviewees mentioned that having the right Team is an important factor in start-up failure. Whilst this issue was also mentioned in the CB Insights Report, it was third (23%) behind ran out of cash (29%) and no market need (42%). The repeated argument of the service providers was that if you have a great product but don’t have a good team, the initiative is more than likely doomed for failure. However, if a great team comes along with a mediocre product, there is a good chance that the start-up will be successful. The team forms the backbone of the organisation. If the team is right, then this will set them in good stead to confront and overcome the other issues that they will have to face (lack of funding, running out of cash, keeping up with the competition, pricing cost issues).

Team issues that often cause failure for start-ups include lack of talent, difference of opinions, vision or goals between cofounders, different levels of commitment between team members, skills set not good/broad enough to go global (both from tech and business side) and the lack of ability to go outside of personal comfort zones.

Other important factors in start-up failure, according to the service providers, include no market need and ran out of money, corresponding with the findings from the CB Insights report. Finally, a lack of commercial skills, a general lack of understanding of the market and market timing (no match between paying customer and solution) were also mentioned.

The results from the partner interviews also confirmed the main conclusions from the CB Insights Report regarding the fact that failure is often caused by a series of different factors combined and that these factors are very diverse.

6.3 The importance of the team and experienced leaders

Disrupting innovations, in most cases, are the result of a combination of luck and intuition.

Nevertheless, “intuition is a developed sense”31, it can be somehow “trained”. You can only sense whether a new product will fly off the shelves, a new business model will take off, or whether a new service will expand across borders if you have a good sense of the market in which you are operating.

An advanced intuition can only result from studying past successes and failures, analogies from other situations and industries, and repeating patterns. All these will fine-tune one’s intuition about what might be possible next.

THNK and Deloitte conducted quantitative research to analyse the dynamics and characteristics of 400,000 start-ups32. As a result of their study, they found that experienced leadership is one of the three most important factors influencing fast-

---

31 Deloitte Fast Ventures & THNK, Scale-up: the experience game, the Netherlands, February – July 2015 (www.thnk.org/2015/09/scaleup-experience-game/).
32 Defined as new enterprises excluding independent professionals, craftsman, non-profits, farming, and small hospitality companies. All start-ups were established in or after 2005.
growing start-ups, also known as scale-ups\(^\text{33}\) (the other two being design for scalability and patience to get market timing right).

The chances of a new enterprise to ascend as a scale-up are around 0.5%, which means that only 1 out of 200 surviving new enterprises will become a scale-up. "Unicorns" make up the even smaller subset of scale ups; only 184 start-ups are valued over $1 billion\(^\text{34}\).

These figures stay the same whether the start-up is founded in Geneva, Amsterdam, Shanghai, Tel Aviv, and even Silicon Valley. These odds also stay the same whether the start-up is in software or hardware, healthcare, energy, financial services, or consumer goods.

What scaleups share is the presence of at least one experienced member in the founding team. Many of them already had entrepreneurial experience (successful and not), and academic degrees. Interestingly, it was a founding team – versus a single individual founder – that started half of all scale-ups.

Scale-up founders typically have the research background and industry experience that qualifies them as true masters of their particular trade and multi-year experience in leading others.

6.4 Bottleneck of a start-up: access to capital

Money is important to get any company off the ground. Without some sort of initial funding, it is extremely tough to launch a successful start up and running out of cash is one of the key failure factors as can be seen in both the CB Insights report and the interviews carried out during the course of the LIFE project. In this section, we will go into more detail on the most frequent types of funding possibilities that start-ups use in Europe. It should be highlighted that in nearly all of the LIFE countries, partners expressed a need to encourage and attract more early stage investment.

Personal savings (or Bootstrapping)

It’s no surprise that using your own personal savings to fund your start-up for the initial period is perhaps the most comfortable way of doing things. It means that you do not have to involve third parties, you won’t incur any interest expense and you won’t have any creditors on your back should your business fail. You can simply concentrate on getting your business off of the ground.

In some countries, the demise of national tech giants has led to a wave of redundancies and significant payoffs, providing many people with the opportunity to be able to launch their own initiatives. In 2012, Nokia hit hard times and laid off 10,000 employees in Finland, finally selling the once dominant mobile phone business to Microsoft in 2014\(^\text{35}\). The latter has recently stated that it will make even more cuts, reducing the Finnish workforce by a further 2,300 employees. Despite these cuts, the unemployment rate amongst the country’s tech workers in several points lower than Finland’s 10% rate, with many people seeing the situation as an opportunity to start their own initiatives\(^\text{36}\).

Through the interviews carried out with LIFE partners, a few interesting insights also came to light regarding the use of personal savings for starting a business. In the UK for

\(^{33}\) Defined as companies that grow to more than $10 million by their 5th year of revenue.

\(^{34}\) www.cbinsights.com/research-unicorn-companies


example, it seems that this tends to be the case for second time entrepreneurs (who have already failed) with first-timers opting for other options such as business accelerators.

In former Soviet countries such as Lithuania, a distinct lack of initial start-up capital was highlighted, indicating that sufficient personal savings to start a business is not very common. However, in Belgium it seems that the situation is the opposite with a great capacity to save and many untouched funds lying in Belgian bank accounts. The problem here is how to tap into these funds and channel them into the start-up ecosystem, encouraging people to launch their own initiatives or to become early stage private investors.

**Friends, family and fools**

It is difficult to get people to believe in, let alone to invest in new projects with only minimal product evidence and business experience. However, this is often one of the most popular forms of funding and a first port of call for entrepreneurs in Europe, before contacting more formal investors.

Often, this is a great source to provide you with initial funding to get the business off the ground. However, it is important that they be treated just like any investors, drawing up a formal agreement and communicating upfront any possible risks in their investments. According to the results of the interviews carried out within the LIFE project, this type of funding is particularly common in Spain, Portugal, Belgium, the Netherlands and Norway as a first port of call, along with bootstrapping.

**Crowdfunding**

Online crowdfunding (raising smaller amounts of money from a variety of different backers) is becoming an increasingly popular solution to funding for start-ups. The Alternative finance sector is experiencing significant growth in Europe, with a 144% increase during 2014, raising a total of 2.96bn Euros. Things are set to continue this way in the near future, according to research on current trends carried out by EY and Cambridge University.\(^37\) Consumer lending is still the largest sector of the market, however, small business funding is rapidly closing the gap. It is estimated that 201 million Euros of early stage, growth and working capital funding was provided to European start-ups and SMEs through alternative finance platforms in 2014.

This sector is completely dominated by the UK, responsible for three-quarters of the 2014 figure. The crowdfunding sector is also showing growth in France (253m), Germany (236m), The Netherlands (155 m) and Spain (101m).38

Even some large banking corporations are experimenting with crowdfunding schemes including Belgian bank KBC’s Bolero Crowdfunding Platform in which the bank itself manages the crowdfunding aspects.39 The use of equity crowdfunding platforms such as Seedrs40, was also mentioned during the LIFE project interviews, with successful experiences mentioned from organisations in Croatia for example.

However, crowdfunding isn’t for all start-ups. An attractive and marketable project or product is required along with a large number of backers (friends, family, local community) who will act as both your backers and promoters of your venture. It is also worth noting that some platforms follow an “all or nothing” strategy whereby you do not receive any funding at all if you don’t meet your target amount of money.

**Accelerators and Business Incubators**

There has been a steady rise in the number of accelerator programmes throughout Europe over the past 5 years.41 In addition to offering a physical work space for your organisation, a wealth of mentoring and guidance from experienced entrepreneurs and the ability to share information and establish contacts with other start-ups, many accelerator and business incubator programmes (both public and private) also offer

---

38 www.forbes.com/sites/davidprosser/2015/03/04/europes-five-biggest-crowdfunding-centres/
39 www.bolero-crowdfunding.be/nl
40 www.seedrs.com/
funding their start-ups. Whilst this funding tends to be minimal, it can be a very good option in addition to other funds that may have been secured. Furthermore, the contacts made with potential investors through these types of programmes are extremely interesting for the start-ups in the future. These were mentioned as important methods of funding in interviews with organisation in Belgium and Estonia, particularly for start-ups in their early stages.

However, caution must be taken on how these accelerator and business incubator programmes are managed. For example, in Spain it was mentioned that there are a few programmes that offer a mediocre service and that the people involved in helping start-up, have never actually launched a start-up themselves. The situation should not arise that there are more people working to help start-ups than there are actual start-ups and employees of those start-ups.

**Business angels**

Business angels are high net worth individuals who usually provide between 25,000 Euros to 500,000 Euros of finance to potential companies at an earlier stage than many venture capital funds are able to invest\(^\text{42}\). They often have knowledge of the industry and many contacts that can be passed onto the entrepreneurs. Despite the popularity of this form of funding across Europe, during the interviews with LIFE partners, the need to encourage more of these angel investors was highlighted in countries such as Spain, Portugal, Belgium, Croatia the Netherlands and Norway. A distinct lack Business Angels was also noted in France, primarily due to tax and legal difficulties with investment. Those that do exist, tend to offer small investments (approx 10,000 Euros) although it was mentioned that this situation is slowly changing. In Lithuania, official angel investment does not exist as such with more of a focus on funding from established companies with sufficient resources and in Estonia, this type of funding is focused on the pre-seed stage with a limited amount available for the growth stage.

Ideas to help promote and attract business angels include the development of Venture capital funds for learning business angels, who are able to tap into this money and channel it towards start-ups.

Ongoing initiatives to promote this type of investment include the organisation of business angels through networks. Examples of this can be seen with Finnish Business Angels Network (FIBAN) with over 500 approved members and over 100 events each year. It is a member of the European Business Angels Network (EBAN) and was awarded “Best performing angel network in 2014”\(^\text{43}\). According to one of the LIFE partners interviewed, the existence of a strong and big national network of business angels has proven to be a key success factor in Finland. The fact that it was privately initiated and privately funded is also important. Other innovative ideas include programmes such as Angel Challenge, which is hosted by Start-up Norway and brings together 20 start-up and 20 investors to build relationships and learn about angel investment together. The winning start-up receives 1 million NOK as a prize\(^\text{44}\).

The European Angels Fund (EAF)\(^\text{45}\) advised by the European Investment Fund, providing equity to Business Angels and other non-institutional investors through co-investments with the aim of financing innovative companies. The initiative started in Germany and is now operational in Austria, Germany, Ireland and the Netherlands and

---

\(^{42}\) [www.eban.org/about-angel-investment/early-stage-investing-explained/]

\(^{43}\) [www.fiban.org/about]

\(^{44}\) [www.angelchallenge.co/]

\(^{45}\) [www.eif.org/what_we_do/equity/eaf/]
has invested in 87 European start-ups since 2012 with the total amount of 24 million Euros\(^6\).

**Public funding/Incentives**

Public funding is another option that start-ups have when seeking to get their initiative off the ground, however it is often overlooked due to a perceived amount of bureaucracy and paperwork needed to access the money. Public funding programmes vary across the different countries and a difference in the success for these programmes has been noted in the different LIFE countries.

Some specific public funding programmes mentioned during the LIFE interviews include IWT, the Belgian Government Agency for Innovation by Science and Technology\(^7\), which offers grants to finance R&D through their SME Programme.

A wealth of public funding programmes were also highlighted in Spain such as those offered by CDTI, the Spanish Centre for the Development of Industrial Technology with a variety of different options ranging from 240,000 Euros to 1.5 million Euros with 15\% of this as a non-repayable grant. NEOTEC\(^8\), which is also managed by the CDTI is a particularly interesting instrument offering non-repayable grants of up to 250,000 Euros to new companies (under 4 years) with a great deal of potential in R&D. The Spanish Ministry of Industry also offers funding options for the creation of innovative companies through ENISA\(^9\), providing participative loans where the repayable interest on the loan depends on the results of the company. Finally, there are also a number of regional agencies that offer public funding for the creation of new companies such as IBERAVAL\(^10\), in the region of Castilla & Leon.

In Finland, the national funding agency for Innovation, TEKES\(^11\), has a programme for start-ups and they are responsible for 60\% of innovations in Finland. Success stories such as Supercell and Rovio both received funding at the initial stage\(^12\). Their Start-up Programme offers three different types of financing that range from money for initial stage, planning for global growth (75\%, maximum of 50,000 Euros), funding for research, development and pilot projects (50-70\% repayable loan) and funding for young innovative companies (up to 1.25 million Euros), which private investors can also leverage. It was highlighted that the communication of the government initiatives needs to be clearer in order to engage with even more start-ups.

Innovation Norway\(^13\), Norway's most important for innovation and development of Norwegian enterprises and industry provides soft funding for promising start-ups offering two stages of funding: Market Clarification (Grants between 50-150,000 NOK) and Commercialisation (Grants of up to 800,000 NOK) focussing on start-ups who have been operating for under three years.

In France, the Public Investment Bank\(^14\) (Banque Publique d'Investissement – BPI) offers funding specifically for SMEs through a wide range of financial instruments and focussed on very early stages of development. It has a lending capacity of

\(^{6}\) www.businessangelseurope.com/News/Pagine/Update-European-Angels-Fund-(EAF).aspx
\(^{7}\) www.iwt.be/
\(^{8}\) www.cdti.es/index.asp?MP=4&MS=0&MN=1&textobuscado=neotec&tipo=1&TR=A&IDR=38&tipoO=Contenido&id=239&xtmc=neotec&xtcr=8
\(^{9}\) www.enisa.es
\(^{10}\) www.iberaval.es/homeiberaval.asp
\(^{11}\) www.tekes.fi/en/
\(^{12}\) www.geektime.com/2015/06/01/welcome-to-finland-where-most-start-ups-get-government-funding-and-the-payoff-is-high/
\(^{13}\) www.innovasjon norge.no/en/start-page/
\(^{14}\) www.bpifrance.fr/
approximately 20 billion Euros. The role of BPI has been compared to Germany’s public banking Group KfW\textsuperscript{55} which has distributed approximately 14bn Euros to over 20,000 companies since 2009. France also has a strong social welfare system that offers high unemployment benefits that enable (legally) would-be entrepreneurs to test out entrepreneurship with minimum risks. The problem is that only people who already had a job once can benefit from this buffer that enables them to create a start-up. However, programmes are still required for other people who do not fall into this category such as freelancers and university graduates. This is also the case in Norway, where the risk of starting a business is minimised by a strong social security system.

The UK are leading the way in Europe with innovative tax benefits for investors in return for investment in small and early stage start-up businesses. The Seed Enterprise Investment Scheme\textsuperscript{56} was launched back in 2012 in order to help stimulate investment in businesses that investors would have previously felt uncomfortable backing. The success of the programme lies in the generous tax breaks that are offered to the investor companies, such as the 50% upfront tax relief on investments up to £100,000. Furthermore, all profits on investments made through the scheme are free of tax and profits gained on other investments will also avoid tax if they are reinvested in the scheme\textsuperscript{57}. This is a different approach to stimulating the growth of start-ups and it seems to be successful with an estimated £82 million of funding unlocked for start-ups in the first year alone.

However, it seems that more still needs to be done. In Belgium for example, it was commented that public funding programmes have the tendency to “Lock-in” the start-up, something which may be positive in the beginning but can have negative effects in the long term. There were also calls to make public funding schemes more accessible at all levels and more well known to the start-ups. In the Netherlands, it was also mentioned that the government schemes are not used as much as they could be by young start-ups. In Estonia, there is a strong focus on grants for product development and research and development. However, these local grants are only available for science-based groups, not entrepreneurs. The entrepreneurs have to look to the EU. Finally, a need for more programmes focused on early stage funding was also highlighted throughout the different countries. Recent progress in this area can be seen in the new legislation adopted by the Belgian Parliament on the 15\textsuperscript{th} of December 2016 that regulates “alternative funding services and developing and introducing a financial framework for alternative funding platforms, funding vehicles and start-up funds. This law will enter into force as of February 2017\textsuperscript{58}.

**Venture Capital**

Venture capitalist investors tend to look for larger, more stable opportunities in which to invest, meaning that this source of funding is for those start-ups that have already progressed further along the start-up lifecycle. However, this option can provide a lot of money for start-ups along with plenty of resources to help ensure that the business succeeds. At European level, progress is being made on this issue through the launch of the recent Startup and Scale-up initiative in which the Commission and the European Investment Bank will roll out a pan-European Venture capital Fund of Funds\textsuperscript{59}.

\textsuperscript{55}www.kfw.de/kfw.de.html  
\textsuperscript{56}www.seis.co.uk/  
\textsuperscript{57}www.forbes.com/sites/davidprosser/2013/11/08/tax-breaks-for-investors-in-start-ups-pay-off-for-britain/  
\textsuperscript{58}www.startups.be/blog/post/investment-start-crowdfunding-platform-or-start-fund  
Throughout the interviews carried out with the LIFE partners, it became evident that in many EU countries, there is a lack of VC money with start-ups having to look outside their country of origin, often looking towards the US, when they require serious investments. This was the case in Belgium, the Netherlands, Germany, Estonia, Spain and Portugal, with an emphasis on the need to attract institutional VCs to invest in start-ups.

There are some schemes in place to encourage and support venture capital firms, such as FOND-ICO\(^60\), in Spain. This is an interesting scheme that is managed by the Instituto de Crédito Oficial, a state-owned bank attached to the Spanish Ministry of Economic Affairs and Competitiveness via the State Secretariat for Economy and Enterprise Support. The 6\(^{th}\) round of funding (launched in December 2015) will invest a maximum of €154 million, of which €100 million will go to two capital expansion funds, up to €40 million to two venture capital funds and a maximum of €14 million to two incubation/technology transfer funds.

### 6.5 Premature scaling

As we have been discussing in this report so far, there are often a number of reasons behind the failure of a start-up. In 2011, the Start-up Genome Team launched a report on Premature Scaling, carrying out research on 3,200 start-ups. They found that 70% of start-ups scaled prematurely in some dimension, a high figure that may go a long way in explaining the failure rate of 90% amongst start-ups.

In their own words, they define start-ups as “a developmental organism that evolves along 5 interdependent dimensions: Customer, Product, Team, Business Model and Financials. How progress is measured varies depending on the stage of the development.”\(^61\) The key to a growth of a start-up is to get each of these five stages to move in time with each other, maintaining consistency. In fact, the study goes on to say that the majority of start-up failures can be explained by one or more of these dimensions falling out of sync with the others.

This desynchronisation can be seen in many different ways but the essence is that the companies expand before they are ready. This may be by hiring too many employees too quickly, spending too much money on customer acquisition before the product itself is ready or by increasing spending on marketing without analysing the core metrics\(^62\).

From their findings, the Start-up Genome Report discovered that 74% of internet start-ups fail because of premature scaling whilst those who scale properly grow 20 times faster. The companies that scale properly also attract more customers and capital and, further down the line, hire more employees. None of the start-ups that scaled prematurely passed the 100,000 user mark and 93% never break the $100,000 revenue/month threshold.

The report concludes that firms that scale prematurely perform significantly worse than those who scale properly. Firms that are inconsistent have lower user growth, raise less money in later stages and make less revenue growth per month. However, the report also concludes that the age of the entrepreneurs, their location, their experience nor their education affect their chances of scaling prematurely.


\(^61\)www.s3.amazonaws.com/start-upcompass-public/Start-upGenomeReport2_Why_Start-ups_Fail_v2.pdf

6.6 Lack of unified data protection law in Europe

Since the European Union established its current data protection directive in 1995\(^63\), a worldwide technological revolution has completely changed the way we gather, store and share information. The rapid increase in the use of the internet and cloud computing has given way to greater complexity for business that manage personal data across different regions in Europe.

The current situation involving a patchwork of national data protection requirements is detrimental for all businesses, and in particular for start-ups and SMEs. Whilst it is not one of the main reasons for failure for start-ups when considered on its own, it is definitely a restricting factor to the future success and growth of the company. It represents a barrier to their international expansion and puts more pressure on already stretched resources, having to deal with the legal and administrative burdens of data protection rules state by state.

Conscious of the ever-increasing gap between data protection rules and constantly advancing technology, The EU General Data Protection Regulation (GDPR) was proposed in 2012, aiming to apply a single set of data protection rules across the EU territories to protect user’s data.\(^64\)

Monique Goyens, Director General of the European Consumer Organisation stated: “EU laws are now lagging behind the pace of technologies and business practices. Our personal data is collected, then used and transferred in ways which most consumers are oblivious to. An appropriate update must put control of personal data back in the hands of European consumers.”\(^65\)

These new regulations, that are set to come into effect in May 2018, aim to unify data protection requirements and provide growth opportunities for EU businesses by eliminating the duplication required to ensure compliance in different markets. They will also mean that companies will only have to contact one single data protection authority in the country where they are based. This will in turn mean that cross-border investment and e-commerce will be made easier, removing the uncertainty caused by changes to data protection rules in member states. Whilst some of the requirements are not entirely clear at present, work is being carried out by the Article 29 Working Party, a group of Data Protection Authorities, who have recently developed a set of guidelines to help provide some clarifications on the issue.\(^66\)

However, the proposal for the new regulations has been met with some concern, particularly over one clause which would allow users to present legal claims against companies that process data, including cloud storage providers, as well as those that own it or collect it. There have been some suggestions from companies such as Amazon and IBM that this could kill off Europe’s cloud computing industry.\(^67\)

Other concerns have been expressed as to whether or not EU businesses are ready for such changes. According to the new regulations, they will have to obtain explicit consent before processing any personal data, respond to requests from customers for their data to be deleted in a timely manner and transfer personal data to another service provider upon request.

Due to the manageable structures of start-ups and quick capacity to adjust and change, a quick adaptation to these new regulations could present an opportunity for them to

\(^63\) www.eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31995L0046:en:HTML
\(^64\) www.euractiv.com/infosociety/new-eu-data-protection-rules-analysis-528482
\(^65\) www.theguardian.com/technology/2015/jun/15/eu-privacy-laws-data-regulations
\(^66\) www.lexology.com/library/detail.aspx?g=5b9034cf-2b43-43c1-b666-732e3e114b5a
\(^67\) www.theguardian.com/technology/2015/jun/15/eu-privacy-laws-data-regulations
avoid costly data breaches and take advantage of improved data sharing, placing them in a good position to do business across Europe.
7 Fear of Failure in Europe

Entrepreneurship is associated with building a business around an innovation and invention that often involves uncertainty and risk. Risk taking behaviour or the ability to make a bold decision relates to individual perceptions of uncertainty. These perceptions are shaped through identifying oneself in a cultural framework that reinforces certain culturally associated actions and behaviours. According to Lupton an individual's perception of risk is constructed by cultural symbolic perspectives (1999). For this research, collectivist and individualist societies serve as a workable cultural framework that influences an individual's perceptions and subsequently impacts behaviours and actions in relation to entrepreneurial activities.

Additionally, while success is highlighted in individualist societies, failure is exaggerated and highlighted in collectivist society, attaching taboos to failure. Furthermore, the collectivist society’s need for affiliation makes actions that strongly promote independence and self-achievement less attractive (McClelland 1975).

In order to stimulate the creation of start-ups and encourage frustrated entrepreneurs to take action and start their own initiatives, it is essential that the perception of failure in EU countries is understood. In this chapter we will take a look at different examples of how failure is perceived focussing on the countries involved in the LIFE project. In addition to the literature available on the issue, we will use as a base for our study information from the Global Entrepreneurship Monitor (GEM) country profiles and interviews carried out with the partners of the LIFE project.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Fear of Failure</th>
<th>Perceived opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Croatia</td>
<td>30%</td>
<td>18%</td>
</tr>
<tr>
<td>2</td>
<td>Norway</td>
<td>35%</td>
<td>64%</td>
</tr>
<tr>
<td>3</td>
<td>Finland</td>
<td>37%</td>
<td>42%</td>
</tr>
<tr>
<td>4</td>
<td>UK</td>
<td>43%</td>
<td>37%</td>
</tr>
<tr>
<td>5</td>
<td>Spain</td>
<td>38%</td>
<td>23%</td>
</tr>
<tr>
<td>6</td>
<td>Netherlands</td>
<td>39%</td>
<td>46%</td>
</tr>
<tr>
<td>7</td>
<td>Germany</td>
<td>40%</td>
<td>38%</td>
</tr>
<tr>
<td>8</td>
<td>Portugal</td>
<td>40%</td>
<td>20%</td>
</tr>
<tr>
<td>9</td>
<td>France</td>
<td>41%</td>
<td>28%</td>
</tr>
<tr>
<td>10</td>
<td>Estonia</td>
<td>42%</td>
<td>49%</td>
</tr>
<tr>
<td>11</td>
<td>Lithuania</td>
<td>45%</td>
<td>32%</td>
</tr>
<tr>
<td>12</td>
<td>Belgium</td>
<td>49%</td>
<td>36%</td>
</tr>
<tr>
<td>EU Average</td>
<td>40%</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>30%</td>
<td>51%</td>
<td></td>
</tr>
</tbody>
</table>

Table 3: Fear of failure & Perceived opportunities per LIFE country, Global Entrepreneurship Monitor (GEM), 2015/2016

The table featured above can be used to spark a discussion of the perception of failure in the different LIFE countries. All but one of the LIFE partner countries have a fear of failure far greater than that in the USA, where past failure is often perceived as a positive thing by potential investors in a start-up. Let’s go deeper into some of the countries that stand out in the GEM report in an attempt to discover what is behind these perceptions of failure.
7.1 Key examples from LIFE partner countries

Fear of failure is a major barrier to business in UK

A significant proportion of young people in the UK (42.4%) believe that fear of failure is a barrier to starting a new business.

This is the result of a research conducted by the GEM. It focuses on comparing and contrasting young people in the UK with other leading enterprise nations: Brazil, US, China, France, Netherlands, Germany and Singapore\(^68\).

As a society, the UK needs to help young people see that “failure” is sometimes a fruitful corollary to entrepreneurship. It is a learning experience, and an important pathway to business success. Almost every successful entrepreneur celebrated in the media has “failed” in some way at some time. Their strength is turning this into a learning experience, and building from there.

Croatia, low fear of failure but lack of entrepreneurial opportunities

In comparison to the other LIFE countries, Croatia has one of the lowest perceptions of entrepreneurial opportunities (18%) whilst at the same time one of the highest perception of entrepreneurial capabilities (46%) and entrepreneurial intention (20%). This information, together with a relatively low fear of failure in comparison to other EU countries (30%, similar to the USA), raises the question of the quality of the business ecosystem.

Croatia has the lowest level of interviewees who stated that successful entrepreneurs receive a high status in their country in all of the EU economies (47%). The EU average is 67% and this figure reaches as high as 84% such as in Finland.

The Croatian economy was harshly affected by the 2008 economic crisis and the main challenges for the future include simplifying the regulatory framework, providing educational support to building entrepreneurial competences, the development of the financial sector and the creation of good professional infrastructure.

Belgium, the population that most fears failure in Europe

Building an entrepreneurial culture could be critical to the future of Belgium, a country with a youth unemployment rate of 24%\(^69\). However, according to the Global Entrepreneurship Monitor, the country has one of the lowest rates of entrepreneurial activity in the world with only 5.4% of the workforce involved in an early stage company. Whilst 36% of the population sees opportunities for entrepreneurs, the country has a fear of failure rate of 49%\(^70\), the highest in Europe.

Following interviews with partners from the LIFE project, the extremely negative opinion of failure in Belgium was confirmed. Findings from the interviews also confirmed that there is a poor perception of entrepreneurs in general. Furthermore, highly publicised failures of Belgian companies, such as Lernout and Hauspie, have not done anything to improve this perspective either. However, it does seem that this perception is improving, especially within the tech start-up ecosystem.

Lernout and Hauspie Speech Products (L&H), once a global leader in speech recognition technology and valued at nearly $10 billion, experienced a historic downfall in 2001 after the co-founders and key leading figures within the company

---

\(^{68}\) Youth Business International (YBI) in partnership with Shell and Global Entrepreneurship Monitor (GEM), Youth Enterprise:Unlocking Ambitions, Creating Growth, November 2013.

\(^{69}\) Eurostat: www.ycharts.com/indicators/belgium_youth_unemployment_rate_lfs

were found guilty of fraud violations in an accounting scandal. As well as attracting some of the most tech savvy investors around (including Microsoft Corp. and Michael Dell), thousands of Belgians had also entrusted their money to the local stars during the technology boom, all of which were wiped out\textsuperscript{71}. The scandal had a strong affect amongst the Belgian economy and the image of failure was made into a huge problem, something which interviewees confirm is just starting to fade away now. Pol Hauspie himself, was invited to be a speaker at the 2015 edition of the Failing Forward Conference, where he explained his story in person.

**Finland, less fear of failure than the EU average**

According to the Global Entrepreneurship Monitor Survey, 35% of Finns said that they had the skills and knowledge needed to start a business. However, this high level of perceived capabilities is a stark contrast to the low number of business start-ups with only 9% of the adult population intending to become an entrepreneur in the next few years and only 6% actively involved in starting their own business.

It doesn't seem that the fear of failure in Finland is to blame for the low rate of new businesses with only 37% of the population stating that a fear of failure prevented them from capitalising on business ideas, a figure lower than the EU average (40%)\textsuperscript{72}.

The GEM report goes on to state that this difference is most probably due to the prolonged downturn in the Finnish economy and the fact that large corporations and a strong public sector have been able to offer high employment and good career prospects.

In addition, the first youth GEM report interestingly found that fear of failure is more common in developed economies and is probably due to the types of entrepreneurial activities in highly developed countries demanding more knowledge than simple entrepreneurial activities prevalent in factor-driven economies\textsuperscript{73}.

### 7.2 The perception of failure elsewhere in Europe

**Collectivism, risk aversion and perceptions of entrepreneurship in Sweden** Sweden is an exemplar of a collectivist society. Collectivist societies perceive entrepreneurial activities as less important because of a “feudal outlook” that ranks entrepreneurs lower and less competent than employees\textsuperscript{74}.

Based on these observations, it is more likely that individuals in Sweden will be more sensitive towards failure and risk and more likely not to pursue entrepreneurial activities.

The GEM Sweden report concludes that Sweden is characterised by a particularly high portion of the population with the lowest entrepreneurship rate in the EU.\textsuperscript{71}

---

\textsuperscript{71} www.wsj.com/articles/SB10001424052748703989304575503500899087566  
\textsuperscript{73} Youth Business International (YBI) in partnership with Global Entrepreneurship Monitor (GEM), Generation Entrepreneur? The state of global youth entrepreneurship, August 2013.  
that perceives they have good business opportunities while displaying similar levels of risk aversion as other innovation driven European countries (2012). Opportunity costs play a role in the entrepreneurial versus traditional employment decision of each individual and government policies play an important role in such decisions.

An international study conducted by Armour and Cumming indicates that a more forgiving insolvency system can encourage individuals to engage in entrepreneurship (2008). The study also concludes that a stricter insolvency system affects the amount of entrepreneurs negatively. A risk from having a stricter insolvency system is that start-ups will be less inclined to grow beyond the early stage, resulting in less innovation and employment (Falkenhall & Wennberg 2010).

In 2007, the OECD issued a report discussing the Swedish insolvency system. In the report, it concluded that Sweden needs to reduce the risks of starting a new business. The OECD specifically highlighted Swedish bankruptcy law. Henrekson and Stenkula state in their research that an individual will be less encouraged to start a new business when the perceived cost is high, due to the strict insolvency system (2010). OECD also conducted a study discussing the possibilities for entrepreneurs to start a new company post failure. In their study, they ranked different countries based on strict and forgiving systems, with Sweden ranked the strictest compared to 24 other countries (2006).

Strict bankruptcy regulations make entrepreneurs act more risk averse (Falkenhall & Wennberg 2010) This is supported by Thorsburn’s study which concludes that several entrepreneurs chose to sell their remaining assets, pay debts, and liquidate their companies rather than be subjected to the potential of reconstruction or bankruptcy (2000).

**Greece’s Silicon Valley fights to survive crisis**

Starting a business in Greece has never been easy. The country ranks 61st out of 189 economies on the World Bank’s Ease of Doing Business list. The bureaucratic red tape is notoriously hard to navigate, and a slow judicial system means delays for things like zoning and land disputes. Tax laws are constantly changing. Greece has been losing human capital to other countries for years, especially amongst the younger generation, said Haris Makryniotis, managing director at Endeavor Greece, a global non-profit organisation supporting entrepreneurship. The unemployment rate is above 25 percent, and more than 50 percent for Greek youth. However, the lack of traditional job opportunities has also pushed young people to create their own opportunities, Makryniotis said.

Greece’s start-up ecosystem has expanded at a respectable pace for the past few years, until it reached its current 400 or so companies. High-profile success stories include Taxibeat, a taxi-hailing smartphone app; Workable, online job-recruitment software; and BugSense, a mobile analytics platform for app developers that was acquired by San Francisco-based Splunk in 2013. Fledgling Greek start-ups have been helped along by EU and Greek government funding via local venture capital firms such as First Athens, Openfund, PJ Tech Catalyst, Odyssey Venture Partners and Attica Ventures. However, the growth of the ecosystem has slowed along with the Greek economy.

Several start-up founders said their optimism about the viability of the start-up ecosystem is fading. “I’m not sure the country will let it become what it deserves to become,” said Nikos Anagnostou, the 55-year-old founder of Discoveroom, an app that helps property owners manage rental bookings.
Maintaining or attracting funding is a key problem. Even if investors continue, they proceed with very different growth and profitability projections. This of course has a negative effect on the valuation of the company.

Start-ups have been affected differently, depending on their business models. For Nannuka, an online service that connects parents to childcare experts, the past few weeks have pushed the company to focus on expanding abroad. About ninety percent of Nannuka’s 8,000 customers come from Greece, and cash shortages mean they are reluctant to spend money right now.

At least a few companies are thinking of abandoning the Greek market. Still, others are waiting to see what happens. However, this all depends on whether Greece manages to avoid economic collapse.

At the very least, Greece’s young entrepreneurs are honing their crisis management skills. “They’re coming out of a country where nothing works, so they’ve developed skills and stamina and resilience that would not be easily taught in another environment,” said Discoveroom’s Anagnostou. “That will help them propel their start-ups higher than everybody else.”

7.3 Blending innovation and risk management

Fear to fail does not affect only start-ups and their potential to scale-up and success.

While being innovative is a central characteristic of “superior” firms it also is a risky venture due to the uncertainties inherent to both the innovations themselves and their commercialisation. The introduction of new products by a firm involves high and often sunk development and production costs that may fail to bring a sufficiently high payoff to recover those costs. Demand for these new products might not pick up or the products could be copied or replaced quickly by other new products developed by competitors. The model proposed by Ericson and Pakes (1995)75 illustrates the risks associated with innovation. In their model, firms engage in R&D investments that may improve their efficiency, profits, and survival but can also lead to firm exit if the outcome is not successful. Given that failed product launches are frequent, innovators might ultimately face a lower survival probability than other firms (Fernandes and Paunov, 2012)76.

Fernandes and Paunov (2012) studied the link between innovation and firm survival by focusing on the role of risk as a crucial determinant of that link, while testing that a positive innovation-survival link is valid only for cautious innovators who are less exposed to risk.

Innovation can be a company’s most powerful tool and a key driver of value. Yet many executives, fearful of the risks inherent in pursuing edgy new ideas that may not succeed, prefer to renovate rather than to innovate77. They argue that responsible

---

risk management necessitates a cautious approach to innovation (Moreno, Pichler and Starrs, 2014). The recent Accenture research shows that highly innovative companies are essentially no more likely to embrace risk than their less innovative peers. However, when they investigated further, it was found that they approach the management of innovation risk differently and that their business models are critical factors in their success.

A corporate culture that only celebrates success can discourage innovation by making people nervous about taking risks—yet no rational organisation would reward failure.

However, some companies have recognised that they can allow innovation teams to make strategically intelligent mistakes within a clearly understood governance framework. This enables a culture that not only tolerates risk but also embraces failure as an integral part of the innovation process (Alon, Koetzler and Culp, 2013).

An integrated approach to risk management has thus become an important component of innovation in the face of the various risks throughout the innovation process.

Salesforce.com: harnessing agility to revamp innovation

When Salesforce.com was launched back in 1999, the San Francisco-based start-up quickly established itself as a leading innovator of cloud-based CRM applications. Indeed, within a year or two, it was launching four major software releases annually and earning many accolades for innovation excellence. Five years later, however, the pace of innovation had slowed dramatically, to just one major release a year.

Company management realised that as the R&D team had grown—it was 200 strong by 2004—it had become less productive. The team’s phase-based, functionally organised process, which was largely dependent on a few key decision makers, had worked well with a small team but was not working for a significantly larger one. In fact, many people in R&D hadn’t even participated in a major release, missing important learning opportunities. And as the number of releases declined, so did morale.

Which is why Salesforce.com resolved to transform its innovation process by adopting a more agile approach, leveraging self-organised, cross-functional teams and testing new applications, iteratively, with customers. Risk management, the company believed, would not be compromised under the revamped approach.

The agile development transformation, which enjoyed the full support of top executives, was an unqualified success. Within three months of rollout in 2006, teams empowered by a simple, agile process with a common language were leveraging customer insights to develop potentially releasable products every 30 days. What’s more, they had dramatically reduced the number of “bugs” that would later need to be addressed—a potentially costly business in terms of both time and engineering resources.

Significantly, innovation team members enjoyed daily transparency into metrics around product performance. They also met in regular group sessions to review the release progress—and learn from their mistakes, a key enabler of good governance for companies seeking to drive innovation by managing risks more effectively.

With 2012 revenue in excess of $2 billion and more than 100,000 customers, Salesforce.com is now widely considered the global leader in enterprise cloud computing—a position powered by a pace of innovation that persuaded Forbes to name it “most innovative company in the world” in both 2011 and 2012.

---

80 Ibidem.
8 The Role of an Education in Entrepreneurship

An education in entrepreneurship can help to change mindsets and provide the necessary skills to promote an entrepreneurial and innovative culture. Traditionally, at University, students are encouraged to find “secure” jobs and not become entrepreneurs. This, coupled with the security of Europe’s welfare system means that people are less willing to take risks. However, the world of work has completely changed with globalisation, the rapid technological development and dwindling costs of travel, and students need to be prepared to work in fast paced, entrepreneurial and global environments in order to be competitive.

Entrepreneurship has formed part of the curricula in higher education institutes in the USA for over 50 years. Harvard University offered its first graduate course in entrepreneurship in 1948 by Professor Miles Mace. Today, these courses are now present in most universities across the country with the demand for such courses coming from the students themselves who are keen to take classes ranging from business planning and start-up to entrepreneurial finance and technology management.

The introduction of entrepreneurship into higher education in Europe has evolved at a slower pace, starting just over 15 years ago, with only a handful of institutions starting before that (Twaalfhoven and Wilson, 2004). The introduction of this subject into the European curricula can also be linked to other trends such as the growth of the venture capital industry to finance innovative, growth-orientated companies. In the USA, this industry started over 40 years ago, taking off in the 1980s, whilst in Europe significant growth in venture capital only began mid 1990s81.

In Europe, education policies are the competence of national governments and the European Commission acts as a catalyst and as a facilitator for the promotion of entrepreneurship in education. Recent work has focused on the dissemination of information and the exchange of best practices amongst EU Member States and on the development of support tools and projects82.

The Entrepreneurship 2020 Action Plan contains a coherent framework for entrepreneurship in education, calling for a change in culture stimulated by education and training. It also provides some best practices as to how to go about this. Past initiatives on this subject include the EC communication on ‘Fostering entrepreneurial mind sets through education and learning’83 and the subsequent development of the Oslo Agenda for Entrepreneurship Education84, both in 2006. Six years later, the initiative “Rethinking Education:Investing in skills for better socio-economic outcomes”85 was set up in 2012 to reform education systems across the EU to meet the growing demand for higher skill levels and reduce unemployment, including the promotion of entrepreneurial skills.

In this chapter, we will dig deeper into the role of learning in enterprise and entrepreneurship in Europe, looking at different levels of education.

8.1 Primary education

It is vital that entrepreneurship education is addressed at an early age as education is key to shaping people’s attitudes, skills and culture. According the study

---

81 “Entrepreneurship and Higher Education”, OECD, 2008
84 www.gvpartners.com/web/pdf/EC_Oslo_Agenda.pdf
“Entrepreneurship Education at School in Europe”\(^{86}\), published by Eurydice in March 2012, an education in entrepreneurship can be integrated into the general education system through different approaches:

- Cross-curricular
- Integration into existing subjects
- Introduced as a separate subject

The results of this study of 31 European countries found that roughly two thirds of the countries explicitly recognise entrepreneurship education at primary level. In these countries, the cross-curricular approach is most common where entrepreneurship objectives are expressed as being transversal, horizontal and cross-curricular. In some cases, it is integrated as part of another subject that forms part of the compulsory curriculum as part of social sciences. In general, entrepreneurship is not taught as a separate subject, although in Finland, this option is being considered for the future.

### 8.2 Lower and upper secondary education

The study by Eurydice also confirms that as we progress higher through the educational structure, there are more explicit references to entrepreneurship in the national key education reference documents than at primary level. The cross-curricular approach is still predominant as is the integration of entrepreneurship in other subjects. In most countries, these two approaches are, in fact, combined.

In contrast to the primary level, education in entrepreneurship is taught as a separate subject in some countries such as Lithuania and Romania where it is compulsory. This is also the case in Spain and Denmark, although the subject is optional.

Regarding upper secondary education, all countries recognise entrepreneurship education even if the exact term is not used. The cross-curricular approach once again prevails. As in lower secondary, entrepreneurship is also included as a separate subject in some countries such as Bulgaria, Lithuania, Austria, Slovenia, Sweden, Turkey and Norway, as an optional subject or as part of a specific branch of studies. Poland is the only country where entrepreneurship is included as a separate compulsory subject.

In some countries, specific initiatives or programmes have been introduced to help pave the way towards a more entrepreneurial-focused education. These include job-shadowing programmes in Belgium, Cyprus and Latvia, specific government incentives for schools that promote entrepreneurship activities in Malta, the organisation of competitions to highlight business skills in Cyprus, Austria and Romania and the setting up and running of fictitious companies in Ireland, Cyprus, Latvia, Lithuania, Romania and Luxembourg.

Various countries have started to invest in what can be considered as the backbone to the development of an education in entrepreneurship, the training and support of teachers. This can be seen through programmes in place in Belgium, Bulgaria, the Netherlands and the UK.

---


“Learning is central to the entrepreneurial process: effective entrepreneurs are exceptional learners. They learn from customers, suppliers, and especially competitors. They learn from employees and associates. They learn from other entrepreneurs. They learn from experience. They learn by doing. They learn from what works and, more importantly, from what doesn’t work”.

8.3 University and postgraduate

The document “Enterprise and entrepreneurship education: guidance for UK Higher Education providers” published by the Quality Assurance Agency for Higher Education" (QAA 2012), contains a timely reminder of some of the key national and international drivers for enterprise and entrepreneurship education. It also highlights the importance for Higher Education Institutes to “offer learning opportunities that are meaningful, relevant and lead to skills that enhance lifelong learning” (QAA 2012:2).

The benefits of “learning about and experiencing enterprise whilst still at university” are stressed: “it gives students an alternative career option and confidence that they can set up their own business or social enterprise. Enterprise skills will also be useful to those in employment, or those who will become self-employed and work on a freelance or consultancy basis, helping develop a ‘can-do’ confidence, a creative questioning, and a willingness to take risks. This is important to provide readiness for a rapidly changing economy, and to enable individuals to manage workplace uncertainty and flexible working patterns and careers” (QAA 2012:4).

The guidance document underlines that educational content delivery should include opportunities for the “use of iterative, discovery and learning processes, including learning from failure” (QAA 2012: 20).

The European Directorate General for Enterprise and Industry’s report, “Effects and Impact of Entrepreneurship Programmes in Higher Education” highlights results that indicate that an education in entrepreneurship in higher education makes a difference, generating an impact on student intentions, competences, and employability, in general producing benefits to society and the economy. The report goes on to underline the importance of promoting effective educational capacity across all disciplines.

It is evident that in recent years there has been an increase in the number of university programmes focussing on entrepreneurship, something that a few years ago was only reserved for Europe’s top business schools. However, is it being done correctly?

Following a series of interviews with the LIFE project partners, it was confirmed that most universities now have some sort of entrepreneurship programme up and running. However, in countries such as Belgium, Spain, UK, Lithuania and Estonia, it was commented that often the professors teaching the programmes or courses have never actually started a business themselves giving way to a very theoretical and perhaps “out of touch” education. This finding is confirmed by the OECD study “Entrepreneurship and Higher Education” (2008) which states that “the majority of the entrepreneurship professors in Europe are traditional academics, reflecting long-standing policies and practices”. A distinct call for more entrepreneurs to collaborate with the universities to change this and provide a more hands on approach to entrepreneurship is necessary. This goes hand in hand with a need to modernise the structure of higher education institutes in some countries to be able to offer quality programmes. In the Netherlands, there is more of a focus on peer 2 peer learning although a lot of work still has to be done regarding an education in entrepreneurship. Although research is being carried out at Universities such as Aachen and Maastricht, very few start-ups actually come from these higher education institutes.

It seems that the situation is different in some European countries such as France, Germany, Finland and Norway where positive changes were recognised during the interviews. For example, in France, partners highlighted changes in teaching methods and the introduction of a more practical approach to learning. Evident changes to the

88www.oecd.org/site/innovationstrategy/42961567.pdf
national curriculum to promote entrepreneurship can be seen in Finland, such as the introduction of coding/software engineering in 2016.

A number of good practices were mentioned during the partner interviews, including Trondheim University in Norway, whereby all students are actually required to start a business as part of the university course. Another example of successful initiatives is Munich’s four entrepreneurship centres that actively collaborate in an alliance called “4 entrepreneurship”. In Finland, the University of Aalto was mentioned that was founded in 2010 combining a local business, design and technology centre which has produced companies such as smartly. Here, the focus on start-ups came about through a strong student movement. Now, every university in Finland has their own student association. In Belgium, the student Association Ghentrepreneurs that is sponsored by the University of Ghent was also mentioned.

89 www.4entrepreneurship.de/
90 www.student.ghentrepreneur.be/
9 Successful practices and programmes

For over a decade the European Commission has been championing measures to create a more entrepreneurship-friendly business environment in order to promote economic growth and jobs. This issue currently lies at the very heart of the Europe 2020 Strategy, the flagship framework policy of the Commission for the coming decade. One of the five targets of this strategy is that 75% of the EU population aged 20-64 should be employed. Raising employment levels and ensuring the sustainability of European socio-economic models, while ‘baby-boomers’ retire, requires the creation of appropriate conditions for a sufficient level of entrepreneurship to develop and persist.

The aim of this chapter is to contribute to identify and prioritise by effectiveness, public interventions or national/regional programmes that successfully support failed companies, specifically start-ups, along with private and non-profit making initiatives, in LIFE countries.

Practices and initiatives mentioned have been selected for being of proved effectiveness and potentially scalable. They pursue one or more of these core objectives:

1. Making second chance easier to take for failed entrepreneurs
2. Stimulate learning from failure & transferring lessons learnt to other entrepreneurs
3. Enhancing cultural change of mindset with respect to failure

9.1 Available measures facilitating a second chance for failed entrepreneurs

The aforementioned study “Bankruptcy and second chance for honest bankrupt entrepreneurs” carried out by Ecorys for DG Enterprise and Industry (2014), makes a detailed analysis of the available support measures on second chance in Europe. The evaluated measures can be separated into two different categories:

1) Bankruptcy settlement and discharge
2) Second chance advice and support

Regarding tailor-made provisions for second chance starters, they are generally not very common in Europe. It seems that countries such as Bulgaria, Croatia, Finland, Poland, Spain or Sweden are paying attention to the issue and are currently working on the preparation of such measures. The details of such measures aren’t known yet with the exception of Spain where legal changes foresee the creation of info-points that will provide advice to entrepreneurs on how to set up and close a business. In some countries, such as Austria, Hungary, Greece, Norway, Serbia and Turkey, there are no second chance measures in place at all and no obvious efforts to change this situation91.

Bankruptcy settlement and discharge

On the issue of bankruptcy, the measures that follow bankruptcy itself can influence how smooth and quick discharge procedures are and under which conditions an entrepreneur can have a second chance and start again. Examples of bankruptcy procedures identified in the report include:

- Recovery proceedings (Bulgaria, Spain)
- Efforts to simplify or shorten discharge (Cyprus, Czech Republic, Ireland, Denmark, Italy, Slovenia)
- Honest individual entrepreneurs do not have to face financial consequences (Romania)

91 The study does not evaluate quality of different measures but serves as a simple comparative tool.
- Possibility to retain items needed for a new business (Slovenia)
- Assistance in debt negotiations (France)
- Advice services on discharge procedures (Belgium, Slovakia)

7 out of the 33 countries studied have attempted to shorten or simplify discharge. However, the majority, (22 out of the 33) do not have any type of bankruptcy settlement measures. Slovenia is the only country to apply two measures on this topic (Efforts to shorten and simplify discharge & Retaining items for a new business).

Denmark and Ireland have recently reduced the discharge period to three years. After this, an entrepreneur is free to carry out new business activities once again.

France is also highlighted for the assistance it provides to micro and small enterprises or agricultural activities on debt negotiations. In Belgium, there are also programmes that help bankrupt entrepreneurs to close the company’s books properly.

In Slovenia, those bankrupt entrepreneurs who are considered to be honest, can ask the court to leave them with the assets needed to start a new business. Furthermore, in Romania, honest bankrupt entrepreneurs do not face any consequences at all and can start again with a new business activity the day after the court hearing.

**Second chance advice and support**

Second chance advice and support consists of the measures that are in place to help those entrepreneurs who decide to reopen their business. They are intended to assist those who do not give up after initial failure and that did not go bankrupt due to fraudulent behaviour. These measures include:

- Equal access to start-up finance (Belgium, Iceland, France, Germany, Netherlands, Lithuania, Malta, Portugal, Spain, Sweden)
- Assistance with access to finance (Ireland)
- Public support measures (Estonia, Germany, Latvia, Lithuania, Spain, Sweden)
- Guidelines for re-starters (Germany)
- Awareness raising (Croatia, France, Germany, Lithuania)
- Efforts towards cancellation of a record in a public database (France)
- Individual can start a new company even while in the course of bankruptcy procedures (Malta, Slovenia, UK)
- Second chance coaching and education (Germany, Belgium, Luxembourg)

The most common measure used for second chance advice and support is equal access to start-up finance which is present in 10 out of the 33 countries in the study, followed by public support measures which were identified in 6 countries. It seems that in general, more efforts are being made in this area with at least one measure in over half of the countries in the study.

In Germany (5 measures in place), the Federal Ministry of Economics provides guidelines for re-starters. In France, an indicator that was used to identify entrepreneurs years after they had gone bankrupt (FIBEN 040) has recently been removed. In Lithuania, they have placed the efforts on raising awareness and presenting second chance success stories in order to help improve the public image of honest bankruptcy, seeing it as a common occurrence that could happen to any business.

In Belgium, there are associations that offer free coaching on how to start a new business after failing. In Germany, there are similar programmes in place whereby entrepreneurs can obtain financial support to hire an external consultant. In Luxembourg, the Chamber of Commerce organises seminars on company
administration to those who have been allowed to reopen their business after bankruptcy.

In many of the countries in the study it was found that after discharge, honest entrepreneurs are not discriminated against in terms of accessing start-up finance and public grants for their new business. In the UK and Malta for example, all debts are associated to the company and so the entrepreneur can easily start again. Furthermore, in France public organisations directly help entrepreneurs with their debt negotiations as well as the presence of an association “Initiative France” that helps fund entrepreneurs and those having difficulties accessing finance. Partners from the LIFE project also mentioned that Mentorship sessions were available from entrepreneurs who have failed and share their experience. They tend to take the format of a CEO dinner/breakfast, involving 10-15 people and are dedicated to failure. Only CEOs who have failed in some way are invited.

In Denmark, we should also highlight the Early Warning Programme launched by the Danish Business Authority which is designed to ensure that crisis-hit enterprises obtain qualified, impartial consultancy and sparring as quickly as possible. The objective is to help businesses to get back on their feet or close down before becoming unnecessarily burdened with debt. Since its implementation in 2008, it has helped more than 3,000 crisis-hit enterprises.

Belgium also has a similar programme called Dyzo which guides independent entrepreneurs in difficulty. The Programme, which has already won several prizes, is available in the whole of Flanders and is free of charge thanks to financial support from the Flemish government and the efforts of dozens of volunteers. Entrepreneurs can use Dyzo to receive support on a number of issues including creating a liveable bankruptcy and to support a fresh start after bankruptcy.

9.2 Stimulate learning from failure and sharing of lessons learned

Whilst specific government measures on second chance and failure are being introduced at a slow pace, the topic is being discussed at various different events and initiatives across Europe. Following the interviews with the LIFE partners, the following key events discussing the topic have been identified as best practices and key to help generating a dialogue on the importance of learning from failure. They are also prime platforms to share the key conclusions that can be found in the WP3 Recommendations Report, developed as part of the LIFE project.

Events:

Failing Forward: This is the focal point of the LIFE project and it consists in an annual conference that takes place in each year in October organised by Start-ups.be. The conference aims to promote entrepreneurship, to discuss relevant topics in entrepreneurship, in particular issues of success and failure, and to provide a European forum to a European ecosystem of entrepreneurship.

FailCon: Whilst this is a global initiative with events throughout the world, the FailCon Europe edition brings together teams from across Europe to generate a European Entrepreneur community to share lesson learned from failure and to help one another succeed.

92 www.danishbusinessauthority.dk/special-initiatives
93 www.dyzo.be/
94 www.failingforward.eu/
95 www.europe.thefailcon.com/about.html
FuckupNights: This global movement started in Mexico back in 2012 and now has events in cities throughout Europe where entrepreneurs can publicly share their business failure stories. Each speaker is given 7 minutes and is able to use 10 images. After each speaker, there’s a question/answer session, as well as time for networking96.

Start-up Wake: An event which brings together 100 of Ireland’s most innovative start-ups and top investors all of whom have experienced failure. The participants share their past failures and the lessons that can be learned for future initiatives.

Facing Founder Issues: This is an event organised by Start-up Wise Guys in collaboration with EIT Digital in Estonia which focused on the challenges within start-up teams, offering a constructive approach to learning from or even preventing failure. There was a focus on what works and what doesn't work in a start-up team, and members of respected start-ups were invited. According to the organisers, it was one of the best received events of the year97.

Fall Up: It is an event organised by the same organisation behind Start-up Sauna and Slush and brings together 1,600 students, top entrepreneurs and top Finnish start-ups. The idea behind the event is to inspire students towards new ways of thinking and arm them with practical advice about how to turn their ideas into reality98.

Fail-Learn-Succeed: This is an event that is held in Luxembourg where successful entrepreneurs share their experiences and present failure as an opportunity to learn and grow. The events showcase that entrepreneurship isn’t all about rainbows and unicorns and helps to inspire positive thoughts with hundreds of participants attending99.

Start-up Funeral: A quirky event which brings professionals together to share their stories of failure through "eulogies". These events are carried out in cities around the world.100

Other initiatives:

Day for Failure: The 13th of October is the national day to celebrate failure in Finland. It is a student movement that allows people to showcase their failures to the world and to promote the understanding of failure as a learning experience. The initiative has a lot of important supporters such as the man behind the success of Angry Birds, Rovio’s Peter Vesterbacka101.

School of Herring: This is another Finnish initiative promoted by serial entrepreneur Marten Mickos which also embraces learning from failure by using short videos and blog texts. Recent participants include Ilkka Paananen from Supercell who celebrates what he has learnt from failure102.

TED Talks on failure: TED is a non-profit organisation dedicated to spreading ideas. It is an online platform offering talks on almost all topics. There are a number of talks available on entrepreneurship and failure. Whilst it is not a resource that is specifically focused on failure, it doesn’t help spread the word103.

---

96 www.fuckupnights.com/
97 www.facebook.com/events/915082991899296/
98 www.failup.fi/
99 www.faillearnsucceed.com/#/about/c1uyg
100 www.techhub.com/events/start-up-funeral
101 www.dayforfailure.com/index.html
102 www.schoolofherring.com/
103 www.ted.com/
Self-help gatherings: In Lithuania, an organisation called Power of Youth\textsuperscript{104} organises self-help entrepreneur gatherings, where many entrepreneurs come together to chat about life and business problems and open up in general through social activities.

9.3 Embracing, celebrating and learning from failure as part of the company culture

In addition to the national and European initiatives to promote learning from failure and the events that generate a dialogue on the issue, it is also essential that the topic is dealt with correctly within the European start-ups and embraced as part of their culture.

A best practice of how this can be done in a successful company can be seen at Supercell. Supercell is a mobile games start-up that was founded in 2011 in Helsinki, Finland and that was making €2.4 million by 2013 having released just two games (Clash of Clans and Hay Day). In a recent interview with the magazine Wired.co.uk\textsuperscript{105}, the company’s CEO Ilkka Paananen revealed that the firm’s success is due to the quality of his employees and discussed the four factors that are key to getting the most out of them. One of these factors was Celebrate Failure.

In his own words, Paananen explains how the company deals with failure "You have to eliminate the fear of failure. If a game goes wrong, we throw a party for its developers and give them champagne to celebrate what they learnt. As a company we have failed far more than we succeeded. We have killed five games and launched two. You need to take risks to succeed and for that you must take fear away from that risk."

He states that this approach to failure is extremely important along with the other three factors which include minimise bureaucracy, the need to be transparent and get big by thinking small.

\textsuperscript{104} www.power-of-youth.org/

\textsuperscript{105} www.wired.co.uk/news/archive/2013-11/13/ilkka-paanenan-interview
10 Conclusions

It is clear that failure amongst European start-ups can rarely be attributed to one reason. It is usually a combination of factors that leads to the demise of an organisation and these factors tend to be very diverse. What is clear from the research carried out, is that there are a number or more predominant reasons why start-ups fail including the lack of a market need for the product or service, running out of money and not having the right team. Discussions with service providers involved in the LIFE project emphasised the importance of not having the right team in start-up failure, indicating that the team forms the backbone of the organisation and if the team is right, then they will be capable of dealing with any of the other problems that may stand in their way.

The majority of these failures also tend to occur in the Discovery phase of the start-up lifecycle, when the start-ups are searching for a repeatable and scalable business model, product/market fit, and the fundamental purpose is focused on validating whether they are solving a meaningful problem and whether anybody would hypothetically be interested in their solution. This is the time when most start-ups die because they not work to create a solid base to growth or because there isn’t a market need.

The European Union has been working hard on introducing policies to tackle the stigma of failure and help promote entrepreneurial activity. They have also introduced a number of funding mechanisms and programmes that specifically target this type of organisation. National initiatives promoting learning from failure can also be seen, although this differs a great deal from country to country. However, there remains a lot to be done in order to

A) PREVENT: Try reduce the risks of failure amongst start-ups.

B) RESPOND: Introduce adequate mechanisms so that should start-ups fail, they can positively learn from this experience and go on to succeed with a future entrepreneurial opportunity.

C) DISCUSS: Change the negative perception of failure by creating forums where stories can be shared and the subject can be discussed.

The combination of these three measures would reduce people’s fear to failure and encourage entrepreneurial activity, strengthening as a result the European start-up ecosystem.

10.1 PREVENT: Measures to reduce start-up failure in Europe

Funding & Incentives: Throughout the interviews with LIFE partners, the need to encourage and attract more early stage funding was highlighted, with Business Angels being specifically mentioned as an area in “need of development” in certain countries. The lack of institutional Venture Capital firms was also mentioned, with many countries indicating that their start-ups had to leave the country or set up offices outside of their country of origin in order to tap into serious funding opportunities. Finally, the alternative finance sector presents itself as a viable option for start-up funding with the alternative funding sector set to grow considerably over the next few years. Successful best practices regarding incentives for start-ups and investors should also be taken into account, such as the Seed Enterprise Investment Scheme (UK).

Education in Entrepreneurship: A greater emphasis is required at national level in Europe regarding the introduction of an education in entrepreneurship into the national curriculum. Whilst there have been great improvements since the 1990s, once again there is a lot of work to be done to bring Europe up to speed with the USA for example. Both the literature reviewed for this study and the interviews with the LIFE
partners indicated whilst there are programmes focussing on entrepreneurship at the majority of universities in Europe, there is a need to change the traditional university structures and encourage the participation of entrepreneurs to become educators themselves providing a more hands on approach. An effective education in entrepreneurship could also reduce the number of start-ups that enter into problems that can be avoided with experience, such as premature scaling.

**Introduction of measures that try to prevent start-ups from failing:** There is a need to build on the European policy and legal framework set out in the new European Approach to Business Failure and Insolvency, promoting the adoption of measures at national level to *promote early warning and self-assessment services, ad attempting to prevent companies from entering court proceedings*. There are also a number of best practices on this issue that are already in place in Europe in countries such the Early Warning Programme (Denmark).

**10.2 RESPOND: Introduce measures to assist failed start-ups**

**Introduction of measures that facilitate a second chance for entrepreneurs:** There is a need to build on the European policy and legal framework set out in the new European Approach to Business Failure and Insolvency, *promoting the adoption of measures at national level on bankruptcy settlement, discharge, second chance advice and support*. Whilst progress has been made in this area, there are still many countries where there are no measures in place. There are also a number of best practices on this issue that are already in place in Europe in countries such as the Dyzo programme (Belgium).

**Encourage companies to embrace, celebrate and learn from failure:** In order to overcome the taboo of failure and change the negative perception that it has in Europe, companies should be *encouraged to change their company cultures to embrace, celebrate and learn from failure*. There are some key examples in European start-ups that have successfully done this with extremely positive results, particularly in the retention and happiness of employees.

**10.3 DISCUSS: Measures to promote positive learning once failure occurs**

**Spread the word on failure:** A number of different events and initiatives were mentioned in the study across the EU countries that encourage people to share their stories of failure. It is important to encourage more and more of these types of events to take place and *create appropriate environments and platforms where peers can share the challenges they have faced and, most importantly, what they have learned from their experience*. These events and initiatives also help change the perception of business failure.

A summary of these conclusions can be found in Annex 12 in the document “Prevent, Respond, Discuss”.
11 Sources

11.1 Reports and articles

- CB Insights, October 2014, The Top 20 Reasons Start-ups Fail
- Youth Business International (YBI) in partnership with Global Entrepreneurship Monitor (GEM), August 2013, Generation Entrepreneur? The state of global youth entrepreneurship
- Max Marmer, CSO Start-up Genome, Bjoern Lasse Herrmann, CEO Start-up Genome, Ertan Dogrultan, CTO Start-up Genome, Ron Berman, PHD at UC, Berkeley, 2011, Start-up Genome Report Extra on Premature Scaling
- Entrepreneurship Unit Directorate-General for Enterprise and Industry, European Commission, March 2012, Effects and impact of entrepreneurship programmes in higher education
- Eurydice, March 2012, Entrepreneurship Education at School in Europe National Strategies, Curricula and Learning Outcomes
- ECORYS, October 2014, Bankruptcy and second chance for honest bankrupt entrepreneurs
- Youth Business International (YBI) in partnership with Shell and Global Entrepreneurship Monitor (GEM), November 2013, Youth Enterprise: Unlocking Ambitions, Creating Growth
- Flash Eurobarometer 354, European Commission, 2012
- Entrepreneurship and Higher Education”, OECD, 2008
• Emily Pope, August 2015, Here’s the difference between a start-up and a small business, www.blog.generalassemb.ly/difference-between-a-start-up-and-a-small-business/
• Simona Wenglass, 2015, Finland is a start-up welfare state — and it works, http://www.geektime.com/2015/06/01/welcome-to-finland-where-most-start-ups-get-government-funding-and-the-payoff-is-high/
• EBAN, Early Stage Investing explained, www.eban.org/about-angel-investment/early-stage-investing-explained/
• Gordon Kelly, November 2013, Supercell's CEO reveals the culture he built to produce a £2.5 billion company in 2 years, www.wired.co.uk/news/archive/2013-11/13/ilkkapaanenen-interview
• Eurostat, 2015, Belgian Youth Unemployment Rate: www.ycharts.com/indicators/belgium_youth_unemployment_rate_lfs
• Charles Forelle & Mark Maremont, September 2010, Lernout & Hauspie Founders Guilty in Fraud, www.wsj.com/articles/SB1000142405274870398930457550350089908756
• Niklas Zennström (CEO, Atomico) and Riku Mäkelä (CEO, Slush), November 2015, www.atomico.com/news/the-state-of-european-tech

11.2 Websites

• www.ec.europa.eu/eurostat/documents/2995521/7590656/2-12082016-BP-EN.pdf/5f4b863e-e886-46fa-894c-351fb274c276
- www.bolero-crowdfunding.be/nl
- www.fiban.org/about
- www.angelchallenge.co/
- www.eif.org/what_we_do/equity/eaf/
- www.iwt.be/
- www.cdti.es/index.asp?MP=4&MS=0&MN=1&textobuscado=neotec&tipo=1&TR=A&IDR=38&tipoO=Contenido&id=239&xtmc=neotec&xtcr=8
- www.enisa.es
- www.iberaval.es/homeiberaval.asp
- www.tekes.fi/en/
- www.innovasjonnorge.no/en/start-page/
- www.bpifrance.fr/
- www.kfw.de/kfw.de.html
- www.seis.co.uk/
- www.atomico.com/explore-d3
- www.start-upeuropapartnership.eu/
- www.start-upmanifesto.eu/
- www.europa.eu/DocsRoom/documents/9783
- www.eurostars-eureka.eu
- www.oecd.org/site/innovationstrategy/42961567.pdf
- www.4entrepreneurship.de/
- www.danishbusinessauthority.dk/special-initiatives
- www.dyzo.be/
- www.failingforward.eu/
- www.europe.thefailcon.com/about.html
- www.fuckupnights.com/
- www.failup.fi/
- www.faillearnssucceed.com/#/about/c1uyg
- www.dayforfailure.com/index.html
- www.schoolofherring.com/
- www.ted.com/
- www.seedrs.com/
- https://startups.be/blog/post/investment-start-crowdfunding-platform-or-start-fund
11.3 Interviews with LIFE Partners

- Karen Boers, Start-ups.be (Belgium)
- Diego Soro, Chamberi Valley (Spain)
- Carmen Bermejo, Tetuan Valley (Spain)
- Egidijus Jarasunas, F6S Network Limited (Lithuania, the UK)
- Robin Wauters, Tech.eu (the UK)
- Ricardo Marvão, Beta-i (Portugal)
- Romain Amblard, NUMA (France)
- Juhani Polkko, START-UP100 (Finland)
- Danielius Stasiulis, Vsl Open Coffee Club Vilnius (Lithuania)
- Calum Cameron, Wise Guys Investment OU (Estonia)
- Sabine Mattern, UnternehmerTUM GmbH (Germany)
- Rob Aalders, Rob Aalders Urban Media (the Netherlands)
- Tihana Marelja, Zagrebački Inkubator Poduzetništva (Croatia)
- Yvonne Edseth, Start-up Norway (Norway)

*The names of the key players (3 per partner) who participated in the interviews in 2016, will not be disclosed to maintain their privacy.*
12 Annexes
12.1 Annex 1: Prevent, Respond, Discuss

Small businesses form the backbone of the EU economy, representing 99% of all enterprises and providing some 75 million jobs. However, 90% of startups around the world fail. What can be done about this?

PREVENT
RESPOND
DISCUSS

3 steps to take on failed entrepreneurship in Europe

The LIFE project presents its 3 step approach to take on the challenge of failed entrepreneurship in Europe. These ideas can be used by any country, region or city that wishes to PREVENT their startups from suffering failure, RESPOND to their startup ecosystem should failure occur. It also aims to get people to DISCUSS the failures they have experienced to change the negative perception the subject, reduce people’s fear to failure and encourage entrepreneurial activity, strengthening as a result the European startup ecosystem.
1. PREVENT MEASURES TO REDUCE STARTUP FAILURE IN EUROPE

- **Funding and incentives:**
  - Encourage and attract more early stage funding (particularly Business Angels).
  - Encourage and attract serious funding opportunities by measures to engage venture capital firms.
  - Promote the use of alternative funding mechanisms (such as crowdfunding).

- **Education in entrepreneurship:**
  - Place a greater emphasis at national level regarding the introduction of an education in entrepreneurship into the school curriculum both at secondary and primary levels.
  - Change the traditional university structures and encourage entrepreneurs to become educators themselves.
  - Build on the European policy and legal framework set out in the new European Approach to Business Failure and Insolvency, promoting the adoption of measures at national level to promote early warning and self-assessment services, and attempting to prevent companies from entering court proceedings.

2. RESPOND MEASURES TO ASSIST FAILED STARTUPS

- **Measures to facilitate second chance:**
  - Promote the adoption of measures at national level on bankruptcy settlement, discharge, second chance advice and support.

- **Encourage companies to change their company culture:**
  - Encourage companies to change their company cultures to embrace, celebrate and learn from failure.

3. DISCUSS MEASURES TO PROMOTE POSITIVE LEARNING ONCE FAILURE HAS OCCURRED

- **Spread the word on failure:**
  - Create appropriate environments and platforms where peers can share the challenges they have faced and, most importantly, what they have learned from their experience.

**The combination of these three measures would reduce people’s fear to failure and encourage entrepreneurial activity, strengthening as a result the European startup ecosystem.**
Evaluation Report

Deliverable D5.1

A little bit of inspiration...

Seeds Enterprise Investment Scheme
UK
The scheme was launched in 2002 in order to help stimulate investment in businesses that investors would have previously felt uncomfortable backing. It offers generous tax breaks to investor companies. All profits on investments made through the scheme are free of tax. The scheme has unlocked an estimated £82 million of funding for startups in the first year alone.

For more info:
www.seeds.co.uk/

Alternative funding for startups
CROATIA (worldwide)
Seeds has recently crowdfunded platform for investing in startups and later-stage businesses throughout Europe. The platform allows users to invest as little as €10 into the businesses they choose and lets early-stage startups and more established businesses raise investment from friends, family, customers, angels and other independent investors in exchange for equity in the business. Various success stories are mentioned during the LFI project in Croatia.

For more info:
https://www.seeds.com/

Promoting public venture capital funding
SPAIN
FONDO ICO is a scheme to encourage and support venture capital firms. It is managed by the Instituto de Crédito Oficial, a state-owned bank attached to the Ministry of Economic Affairs and Competitiveness via the State Secretariat for Economy and Enterprise Support. The 7th round of funding (launched in 2005) has invested approx. €173 million, of which €129 million has gone to three capital separation funds, approx. €3.2 million to three venture capital funds and €48 million to three innovation/technology transfer funds.

For more info:
http://www.ico.es/privacy/ico/

Financing business angels investment
FINLAND
The Finnish Business Angels Network (FIBAN) has over 500 approved members and holds over 300 events each year. It is an initiative that was primarily started and funded. It is a member of the European Business Angels Network (EBAN) and was awarded “Best performing angel network” in 2014. The existence of a strong and big national network of business angels has proven to be a key success factor in Finland.

For more info:
https://www.fiban.org/

Free help for struggling startups
BELGIUM
Digo is a non-profit association that guides independent entrepreneurs in difficulty. Free of charge, it is available throughout the whole of Flanders and provides financial support from the Flemish Government. A team of dedicated professionals help struggling entrepreneurs with economic, legal and psychological issues related to their business. They also give assistance during fundraising, preparing plans, and provide support for a new start.

For more info:
http://www.digo.be/

Promoting entrepreneurship in higher education
GERMANY
Four of Munich’s key entrepreneurship centres actively collaborate in an alliance called “4 entrepreneurship. This entrepreneurship Think Tank considers entrepreneurship as a distinct scientific discipline and professional body of knowledge. Their vision is to foster the Munich entrepreneurship region, create new formats for entrepreneurial events, build a global entrepreneurship network and innovate in entrepreneurship education and development.

For more info:
http://www.hamburg.de/

http://www.4entrepreneurship.de/
“Failure is the key to success; each mistake teaches us something”

Morihei Ueshiba