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SUMMARY REPORT
The public debate following the Green Paper 'Entrepreneurship in Europe'

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THE PUBLIC DEBATE FOLLOWING THE GREEN PAPER ON ENTREPRENEURSHIP

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Annex

1. INTRODUCTION

Entrepreneurship drives innovation, competitiveness, job creation and growth. It allows new innovative ideas to turn into successful ventures in high-tech sectors and can unlock the personal potential of disadvantaged people to create jobs for themselves and find a better place in society.

Yet, recent data showed that Europe does not exploit its **entrepreneurial potential**. According to a 2002 Eurobarometer survey¹, Americans were involved in three times more new entrepreneurial ventures than Europeans. European firms grow at a slower pace and, in the 1990s, only one in twenty SMEs could be qualified as a “gazelle” as against one in five in the US.

Recognising the need for a radical transformation of the economy, the **European Council** in Lisbon (2000) set out challenging goals for improving performance on employment, economic reform and social cohesion. In the same year, the Council endorsed the European Charter for Small Enterprises, which urged Member States and the Commission to take action to support small businesses².

Within this context of dynamic change, the Commission launched a **debate** on entrepreneurship policy to ensure that the policy focus remains accurate. The first step in this process was the publication of the **Green Paper** on Entrepreneurship to invite public consultation on a series of key questions. The **Green Paper** addressed to the widest possible range of stakeholders two questions: *‘how to have more entrepreneurs’* and *‘how to get more firms to grow’*. By approaching entrepreneurship as a mindset, the Green Paper expanded the scope of entrepreneurship policy, beyond redressing the barriers for business development and growth, to getting more people interested and equipped to become entrepreneurs.

The Green Paper asked ten **questions** under three **pillars** of action:

- Bringing down barriers to business development and growth
- Balancing the risks and rewards of entrepreneurship
- A society that values entrepreneurship

The Paper suggested a **co-ordinated approach** among policy-makers at European, national and regional level to provide a coherent response to the needs of entrepreneurs.

¹ Flash Eurobarometer 134 ‘Entrepreneurship’, November 2002.

² The ‘*Charter for Small Enterprises*’, endorsed at the Feira European Council on 19-20 June 2000, covers ten key areas: Education and training for entrepreneurship; Cheaper and faster start-up; Better legislation and regulation; Availability of skills; Improving online access; Getting more out of the Single Market; Taxation and financial matters; Strengthening the technological capacity of small enterprises; Making use of successful e-business models and developing top-class small business support; Developing stronger, more effective representation of small enterprises’ interests at EU and national level.

The Commission currently is elaborating an **Action Plan** on the basis of the findings presented in this report, but also the broader collection of contributions to the Green Paper questions and the results of its ongoing work.

The Action Plan will be presented at the end of 2003. It will serve as the basis for continuing the Commission's support programmes in favour of SMEs and entrepreneurship and will guide future policy work, carried out in co-operation with the Member States, the regions, business and professional organisations.

1.1. Main features of the responses

The Green Paper was successful in stimulating debate among a wide audience of stakeholders. The Green Paper figured on the agenda of a large number of conferences, seminars and meetings - often organised specifically on this issue. Written contributions were received from public authorities at national, regional and local level, business organisations, business support providers, individuals as well as universities and academia. Some **240 replies** have been received around 25 countries covering Europe, Asia and the US. All in all the responses represented a good balance of different stakeholder groups and geographical locations³.

The results of the **public consultation** will play a major role in setting the future agenda for entrepreneurship policy. Besides indicating priorities, the responses brought together a wealth of information on entrepreneurship and good policy practice. Respondents shared their experiences and contributed new insights, concrete proposals and policy lessons. While all responses received in electronic form have are available online⁴, this report summarises the contributions received in response to each question.

This report provides a concise overview of the results of the public debate launched by the Green Paper on Entrepreneurship. It does not include the Commission's reactions to the responses.

2. MAIN TRENDS IN RESPONSES TO THE TEN QUESTIONS

2.1. Key objectives for entrepreneurship policy

What should be the key objectives for an agenda for entrepreneurship in the European Union and how should these relate to other political ambitions? How can we build a model for entrepreneurship in an enlarged Europe?

The policy theme most mentioned in response to this question was the need to reduce **administrative and regulatory burdens**. These requirements affect SMEs disproportionately, since they cannot afford hiring specialised staff to deal with complex rules and procedures. Suggestions included the need to improve the quality of legislation through impact assessments and SME involvement in the policy-making process. Greater use of ICT would improve communication with public administrations and simplify procedures such as business registration.

³ Details are given in the annex.

⁴ http://europa.eu.int/comm/enterprise/entrepreneurship/green_paper/index.htm

Access to finance should be made easier for businesses in the different stages of development (pre-start, start-ups, business transfers, growth etc.) and in various sectors. In particular, the European market for risk-finance needs to be further developed.

Respondents confirmed the dampening effect of **taxes** on business growth. Many proposed tax incentives or cuts to support start-up and expansion, for example, in case of reinvestment of profits. Fiscal distortions in the Internal Market should be removed and the recovery of VAT within the EU simplified.

The **labour market** is perceived to be problematic. Policy needs to tackle the shortage of certain skills in the market and make labour laws more flexible so that businesses can adapt to changing circumstances.

Training and support, particularly for new entrepreneurs, were seen as prerequisites for entrepreneurs to have the right knowledge and skills to run their businesses. Incubators were seen as important for start-ups during the first difficult period. Wider availability of mentoring was considered useful to support entrepreneurs when they develop their firms.

Other key priorities included encouraging **innovation** and business **internationalisation**. Also, firms' access to research and technology should be facilitated, for example through easier access to EU research programmes and reduced cost of obtaining and protecting IPR. Clusters could facilitate both the circulation of knowledge among researchers and entrepreneurs and the exploration of foreign markets through bundled efforts.

Respondents noted that **social protection** tends to be more generous to employees than to independent entrepreneurs, making an entrepreneurial career less attractive. Existing discrimination related to social rights should be reduced and the changeover from one status to the other (employee to entrepreneur and vice versa) should be made easier. While the fear of failure explained people's reluctance to become entrepreneurs, policy can mitigate the negative consequences of business failure and allow people to make a second start.

Many respondents perceived the need to promote **more favourable attitudes** towards entrepreneurship in public opinion. They suggested presenting a more realistic **image of entrepreneurship**, for example by showing different forms of entrepreneurship. This may inspire more people from different backgrounds with different aspirations to start a business in a form that matches their capacities and expectations. Respondents suggested portraying the high number of responsible entrepreneurs that take the needs of society seriously. Along with showcasing successful entrepreneurs as role models, a balanced picture of failed entrepreneurs could be provided as a means to tackle the stigma on failure.

Entrepreneurship education should be a full part of school curricula, so that all young people get a chance to learn about entrepreneurship, acquire entrepreneurial and business skills and consider whether it would be an interesting career option for them. In addition, many respondents consider entrepreneurial skills as valuable life skills that are beneficial even when someone decides upon another career.

As a general point, respondents stressed the need to consider the **diversity** of needs of different types of entrepreneurs (e.g. women, ethnic minorities), in different sectors (such as innovative businesses, traditional firms, gazelles, microfirms, social economy). Furthermore, the widely divergent economic infrastructure means that the needs of regions vary considerably (e.g. remote regions, urban zones).

To enhance the **effectiveness of policy**, SMEs should be consulted when drawing up legislation and policy that affects them. The role of the SME Envoy and the Interactive Policy Making tool (IPM) should be reinforced.

Most respondents confirmed the Commission's views about the added value of a **co-ordinated approach**. Each policy level plays a specific role: The European Commission is well placed to organise a platform for a European exchange of good practices. But support and advice is best provided at national and even regional level, where the best knowledge about the specific needs and challenges of the entrepreneurs can be found.

Further actions suggested included EU Council Meetings on SMEs, a Commissioner or Minister in charge of entrepreneurship, a task force to build synergies and streamline different policy strands and evaluation of the impact of entrepreneurship policies and programmes. The open-method of co-ordination could be improved by a more consistent follow-up on recommendations through the use of targets and scoreboards. Sufficient flexibility should be allowed in setting appropriate priorities for each Member State or region. Reports on progress made on the Action Plan should be integrated into the existing mechanism for reporting on the implementation of the European Charter for Small Enterprises. The EU would only need to take action where this is justified by the subsidiarity principle.

2.2.Availability of finance

How can we improve the availability of finance (tax measures, public-private partnerships, stronger balance sheets, guarantees) and what alternatives to bank loans should be promoted (business angel finance, leasing, factoring and microloans from non-bank lenders)? How can entrepreneurs be supported in obtaining external finance?

Most comments concerned **taxation** of businesses and investors, **strengthening the equity base of firms** and the promotion of **loan guarantees**. **Market forces** should be allowed to function, while policy should ensure that there is no discrimination between different financing forms through taxation, charges or bureaucratic conditions. **Lower taxes** for start-ups and young enterprises were uniformly supported. The need to simplify **SMEs' access to financial support** was widely endorsed. The specific problems encountered by disadvantaged entrepreneur groups are also an issue of concern.

The need to **strengthen the equity base of firms** was frequently mentioned. Some noted that fast growing firms would provide growth and jobs, and thus their needs should be in the forefront. However, there is a general need to increase the equity of all SMEs. Stronger equity base supports growth and improves a firm's positioning in bank rating systems. The ways to increase equity are retained earnings, informal individual investors, and venture capital funds. Retained earnings are the preferred

option for many and their tax treatment was often mentioned as an obstacle to self-financing.

Promoting individual investment, in particular by **business angels** received wide support, in particular when accompanied by tax breaks. Other informal investors such as friends and family invest in all types of companies, but business angels are typically interested in fast growing firms. Lack of knowledge about business angel financing needs also to be addressed.

The observations emphasised the need to further develop the European **venture capital markets**, in particular **seed capital funding**. Comments noted that successful fundraising by venture capital funds needed a fully functioning single market where various institutional investors such as pension funds are not subject to arbitrary investment restrictions. Equity guarantees and a pan-European fund structure could facilitate fund raising and investments.

The **lack of information and awareness** of financing alternatives is a key problem for SMEs. Another problem is the information asymmetry between investors and entrepreneurs. Rating in general and technology rating in particular were cited as tools to help firms in this respect. General information about financing, driven for example by business and finance networks, should be organised around single access points. More information and preparedness about finance could also help overcome the reticence of some entrepreneurs to give up control of their business to outside investors.

Early-stage finance can be supported using **guarantees and mutual guarantees** to facilitate access to bank lending. However, a frequent comment was the need to simplify entrepreneurs' access to guarantee instruments. In general, instruments for sharing the risk between private and public sectors were considered a good way of supporting early-stage finance.

Microloans with public guarantees were widely recommended in the early stages of enterprise development. Other loan-related contributions emphasised subordinated loans as an alternative to equity finance and interest rate subsidies for SME lending. The use of securitisation to support bank lending to SMEs was also proposed.

Although relying too much on bank lending was considered unfavourable for SMEs, there were many proposals for overcoming the information gap between banks and SMEs. A key issue in many countries would be **better training of bank loan officers** to deal with SME issues. Entrepreneurs must be better prepared to present their projects in a way that addresses the needs of banks and investors.

The efforts of the EU to build a **single market for risk capital and financial services** received broad support, as did the use of best practice cases to entice Member States to change. It was suggested that future *Best projects* should focus on the most important fiscal and regulatory obstacles of SMEs.

The effects of the **new capital adequacy rules for banks (Basel II)** were cited as a cause for concern. Suggestions pointed at partnership building and a Code of Conduct for Banks and SMEs.

To support **research and development**, research expenditure should be treated as an investment that can be amortised over several years. Several contributors want **European state aid rules** to be more flexible in cases such as innovative growth companies.

Regional capital markets were deemed important for providing finance and liquidity at local level and fostering entrepreneurship in peripheral regions. The use of local intermediaries and **instruments tailored to national, regional and sectoral needs** was emphasised. A useful example is regional, or socially oriented community venture capital. **Services at regional level** should be combined to get finance and advice providers to co-operate and create single access points for business support and finance.

2.3.Factors influencing growth

Which factors most hinder growth (lack of) mutual recognition and EU rules or their (non-) implementation at national level, national tax provisions or the situation on the labour markets)? What actions are best suited to supporting growth and internationalisation (trade missions, market analyses, clustering and networking, information and consultancy services)?

The responses unveiled a broad spectrum of obstacles to growth, varying from country to country. Here again, respondents raised the need for **administrative simplification** and **consulting systematically with SMEs**, especially through SME representative organisations, before introducing new regulations. Many respondents underlined the principle ‘think small first’ to ensure sound **impact assessment** and **better regulation**. The recently adopted Better Regulation Action Plan⁵ must be fully implemented. Proposals were made to create “Better Regulation Units” within the EU institutions in order to co-ordinate regulatory reviews and to ensure that the consequences of legislative proposals for SMEs are fully considered. Processes must be put in place to identify and remove obsolete or poorly designed regulations.

Some backed the greater use of **alternatives** to traditional regulation such as education and awareness raising, codes of conduct or benchmarking. Others regretted that regulation does not take account of the **size of firms**. They called for a consistent application of the recently published Commission “Action Plan on Company Law and Corporate Governance⁶” which recognises the need to distinguish between categories of companies in future EU Company law initiatives.

Many found that the Internal Market is still not a reality for all enterprises in the EU. The fragmented tax and legal environment in the EU produces high transaction costs for pan-European activities. The incorrect application of the **principle of mutual recognition** prevents European businesses from reaping the full benefit of the Internal Market. Furthermore, incomplete or absent implementation of Internal Market legislation distorts competition and hampers EU-wide business operations.

⁵ Communication from the Commission ‘Action plan Simplifying and improving the regulatory environment’, COM (2002) 278 final, 05.06.2002.

⁶ Communication from the Commission ‘Modernising Company Law and Enhancing Corporate Governance in the European Union - A Plan to Move Forward’ COM (2003) 284 final, 21.5.2003.

Here again, the complex administration and levels of **taxation** stunt business growth. Promoting a single (reduced and standard) **VAT rate** across the EU would simplify transactions and recovery. Similarly, a **single transfer tax** would facilitate cross-country business transfers.

In addition to the lack of flexibility of **complexity of labour market rules**, other related factors hindering growth are the high labour costs, complex contracts and limited mobility.

Better **access for SMEs to public procurement** would help growth in home markets. Public authorities should ensure that SMEs have equal access to public sector contracts and aim to increase the participation of SMEs in tendering for public contracts.

Finally, some pointed to the growing importance of **subcontracting** in Europe. Guidelines for sub-contracting might be necessary. Non-compensated changes of the contract and **late payments** are just a few of the existing problems. SMEs, tend to suffer disproportionately from late payments especially in subcontracting.

A frequently mentioned driver for SME growth is the **exploitation of knowledge and innovation**. The interface between the worlds of science base and SMEs should be improved. The Commission's paper Good Practice in Industry-Science Relations⁷ should be widely promoted both to universities and to intermediaries serving SMEs. **Networking** also promotes knowledge transfer and can generate business opportunities.

Acquiring **business skills** will help transform innovation into commercial success. Universities could introduce teaching modules on building business skills among scientists. The possibility to acquire work experience could be offered to students and researchers; the opportunity to exploit research results commercially could be encouraged.

Policy-makers should step up efforts to ensure better **access to public R&D funds**. Many respondents supported the Commission's proposal to introduce a block exemption on State Aids for R&D for SMEs⁸. The difficulty and cost of **protecting intellectual property and patents** remains a major barrier to growth unlikely to be overcome by the future Community Patent.

The **internationalisation of SMEs** can be promoted through clusters. The creation of **clusters** of enterprises in the same sector can help entrepreneurs increase their innovation capacity and set up strategic links within a supply chain. Successful clusters allow easier access to information, creation of joint overseas representations, joint branding and marketing, access to training and share risks and costs.

Support in the form of **trade assistance** in markets outside the EU was seen as instrumental to growth outside the Internal Market. Several actions were proposed: assistance for enterprises investing abroad; on-site support structures for

⁷ 'Competitiveness and benchmarking - Good practice in industry-science relations', 2002-46pp. -21 x 29.7cm ; ISBN 92-894-3710-3 ; Cat. No: NB-43-02-939-EN-C.

⁸ 'Communication from the Commission to the Council 'Progress report concerning the reduction and reorientation of State aid' ;, COM (2002) 555 final, 16.10.2002.

importer/exporters; and information facilities for companies operating abroad. To facilitate cross-border trade, SMEs should have access to an efficient and cheap system to resolve litigation. A simplified, cost effective and efficient system of **Alternative Dispute Resolution** at European level could offer significant benefits.

2.4. Training and support

To ensure high quality businesses, what training and support should be offered for a business start-up (basic training - compulsory or voluntary, incubators, mentoring) and business development (networks, courses, mentoring, distance learning, e.g. e-learning)? Should there be services tailored to the needs of specific groups (women, ethnic minorities, unemployed or socially disadvantaged people) or businesses (knowledge-based activities)? Should the quality of delivery of support services be improved (using ICT, professional standards)?

The quality of **support services**, and particularly public support should be improved. Public support should be complementary to that provided by the private sector. Where there is a need for public intervention, many respondents suggested combined public/private partnerships. Services need to be tailored to clients' needs (one size doesn't fit all) and periodically evaluated.

The importance of **training** was widely acknowledged. Training programmes for business advisers could improve the quality of support services. Mentors can help design a business plan. Some considered that a start up venture should be accompanied by compulsory training while others argued the opposite, maintaining that such training would not guarantee sufficient knowledge to run a business. Virtual universities as well as distance learning could provide useful training options.

One-stop shops are considered the preferred option for service provision. Use of a broad **information network** such as the Euro Info Centre (EIC) network can help solve issues related to EU policies, programmes and legislation. However, there is room for improvement of the network through more co-operation among EICs and more information provision on the EU regulatory framework.

Information tools such as databases/ICT were considered as useful but must be periodically updated and evaluated to maintain their usefulness and quality. More widespread ICT use could also be promoted within support modules.

Both formal and informal networks were considered useful for SMEs to learn from each other, particularly in the start-ups phase. Enterprise-partnerships could act as meeting points for SMEs and professionals and platforms for common agendas. Co-operatives are a good example of enterprise co-operation. **Business incubators** are another effective business support tool that should be further strengthened.

Certain **groups** of existing and potential entrepreneurs need specific attention. For example, women were frequently mentioned and several specific requests were made for measures specifically targeting women entrepreneurs. Similar pleas were made on behalf of ethnic minorities, migrants and young entrepreneurs. However, support to such groups is best delivered through mainstream services rather than isolated, group-specific mechanisms.

2.5. Conditions in the Accession and Candidate Countries

Are the obstacles and incentives for business development and growth in the European Union similar for entrepreneurs in the Candidate Countries (CCs), and does the forthcoming enlargement call for specific measures in the Candidate Countries?

SMEs in the Accession Countries are confronted with similar challenges as SMEs in the present EU in the areas of administrative burdens, the legislative and tax environment, inflexible labour laws and access to finance. At the same time, Accession Countries have some special needs in terms of business support.

Financial support should take into account the underdeveloped banking and guarantee markets in Accession Countries. Domestic professional players, such as pension funds, should be encouraged to participate in private equity/venture capital. Measures to improve access to finance and investment should be developed with the involvement of accountancy professionals.

Financing with **low interest rates** should be made available (more subsidies on interest rates for SMEs - preferential financial schemes). Microcredits and seed capital funds/incubators are needed as well as more mutual loan guarantee schemes and better capitalisation. A renewal of the Risk Capital Action Plan with specific emphasis on Accession Countries should be promoted as well as a deduction scheme of credit reimbursements from taxes.

Another key area for support is the need for information provision to SMEs in Candidate/Accession Countries. SMEs in the Accession Countries need business-focused **information** on the EU. The EIC network can be particularly helpful in this respect. Knowledge on obligations, rights and opportunities in the Internal Market, and if necessary, individualised assistance should be disseminated.

Lower requirements on businesses that may still exist in the Candidate/Accession Countries should not create unfair competition. **Cross-border co-operation** in an enlarged Europe should be reinforced. Similarly, lower **labour costs** in Accession Countries should present an opportunity to capitalise on the availability of flexible and skilled workforce but not lead to 'social dumping.' The EQUAL initiative should be mainstreamed in an enlarged EU and extended beyond 2006.

Other areas for specific measures include **networking** and **exchange of good practice**. Links between current and new Member States should be encouraged possibly through Interreg or virtual networks. Regional networks could help provide a positive response to policy and market requirements.

As entrepreneurs in Accession Countries still suffer from a negative image particularly in the media, emphasis should be placed on promoting a positive **entrepreneurial image and culture**.

Business organisations need to be developed to represent business interests and maintain liaison offices in Brussels.

2.6. Balance risk and reward

What can EU Member States do to make the balance between risk and reward more favourable to promoting entrepreneurship (reducing the negative effects of bankruptcy, making more social benefits available for entrepreneurs, reducing the tax burden either in terms of administration or rates)?

Several contributors pointed to the imbalance of the risks and rewards associated with entrepreneurship. People might be more willing to accept the risk of entrepreneurship if it were compensated by the prospect of reward in the event of success. Recommendations include a reduction on the **tax burden** on self-employment, start-ups, businesses with low profitability and small businesses, as well as tax incentives for risk-taking that creates employment or innovation. **Financing** is another important factor. Risk aversion could be lessened if entrepreneurs and investors had more information about each other. Also, business plans could be tested in entrepreneurial parks or discussion fora thus lowering the risk during the start up phase.

The **social benefit system** should make entrepreneurship more attractive. For example, in some social security systems changing status from employee to self-employed (and back) does not affect entitlements to unemployment or other social benefits. Private insurance could be an option if made more attractive.

With regard to **bankruptcy**, prevention is crucial. Financial assistance, appropriate support and training (such as on risk assessment) or early detection can diminish the occurrence and the impact of temporary crises. In cases of insolvency, liquidation should be the last resort so as facilitate debt restructuring and rescue.

National **insolvency systems** should be re-examined. There should be a clear distinction between honest and dishonest bankruptcies. Severe legal treatment is justified in the case of fraud or dishonesty, whilst honest entrepreneurs should be able to protect their personal belongings in case of bankruptcy. A “homestead” exemption would guarantee a bankrupt entrepreneur an acceptable living standard and barriers for a **fresh start** should be lifted. However, the review of insolvency laws must not harm **creditors**, who are often small businesses. If creditors` interests are not well protected they will be reluctant to invest in new ventures.

The **stigma of failure** could be reduced via cultural change and education. Failure should be perceived as a learning opportunity. This change would imply educating the public on valuing the positive social role of entrepreneurs (human capital, sustainability, community benefits, etc.) and on tolerating a second chance. Risk is part of entrepreneurship. Society at large should develop a positive mindset about ‘taking part’ rather than just winning.

2.7. Taking over a firm

How might more prospective entrepreneurs be encouraged to consider taking over rather than starting a new firm (buyers and sellers databases or marketplaces, special training for family-owned businesses, management or employee buy-outs)?

Respondents largely confirmed the validity of the 1994 Commission Recommendation on the transfer of SMEs⁹ and the findings of an expert group¹⁰ that provided concrete suggestions to facilitate business transfers. The key to the issue is **the lack of successors** and it must be tackled urgently through a combination of fiscal, financial and support measures.

Maintaining existing businesses is a key challenge. An existing business has **better chances of success and growth** than a new business that has not yet overcome the typical “teething problems” in its early years. Transfer of businesses should gain the same awareness amongst policymakers as business creation. Taking over firms is beneficial to the economy: new entrepreneurs continue the firms’ activities or even expand further, whereas ceasing operations causes unemployment and loss of competition.

Potential entrepreneurs are not always aware of the different options of becoming an entrepreneur, including taking over an existing company. Many respondents proposed **raising awareness** and **providing information** on the transfer of businesses. Such action should target both the potential successors by making them aware of this possibility as well as the transferors in order for them to prepare well and in time for the transfer. Setting up **market places** of buyers and sellers of companies can help match demand and supply. Such market places would not only make the transfer market more accessible to the potential successors but also safer for the transferors. The market places could be operated as public-private ventures and integrated into existing support structures acting not only as a broker, but also providing advice.

Over one third of SME owners are vulnerable to **age-related succession failure**. Handing over a business can be complex and stressful for the owner. Owner-managers should start considering succession planning at an early stage, as it can take several years to develop an effective 'exit strategy' that includes the transfer of know-how and skills. This could be accomplished through **training** for transferors and successors, as well as specific **advice and support**. To ensure easily accessible support that effectively reaches the target audience, some highlighted the need for more co-ordination between the various support providers.

Many respondents proposed more favourable **tax regimes** for business transfers. Even if several countries already provide specific tax breaks for business transfers, these measures are not sufficient. Business transfer taxation should not undermine the economic standing of the company, nor be overly complicated. New rules governing business transfers should be simplified.

As the size of businesses in the transfer phase is usually relatively large, acquiring an existing business requires more capital than a start-up. There is a clear need to develop appropriate **financial instruments** for the transfer of businesses.

Quite a few of the respondents reacted to the increasing trend of transfers outside the family by asking for measures to **facilitate management or employee buy-outs**.

⁹ ‘Commission Recommendation 94/1069/EC on the transfer of SMEs’, OJ L385, 31.12.1994, p. 14.

¹⁰ ‘Final report of the expert group on the transfer of SMEs’, May 2002.

Employees could be motivated to take over the company and, besides the owner, especially in smaller companies, they are most likely to know the business best.

2.8. Spin-offs

How can spin-offs be made more attractive (management buy-outs, showcasing, specialised advice, tax or other provisions for employees and their employers whilst starting a business)?

Promoting **spin-offs** was among the questions that received fewer comments; less than half of the respondents commented on this topic. The contributions pointed to three key policy areas to encourage spin-offs: a supportive fiscal and financial environment; infrastructure and services adapted to business needs, and links between academic and business communities.

Respondents perceived **taxation** as a deterrent for spin-off activities. They proposed tax incentives, and the review of fiscal charges and initial costs associated with starting up such businesses. Other measures to consider are tax deductions for start-up investment from parent companies, employers or vendors. Finally, in contrast with the prevalent view, some claimed that targeted support for start-ups might be more efficient than tax incentives.

The **financial schemes** currently available for business start-ups must be reviewed and tailored to spin-offs. Suggested measures included reducing risk for individual investments, encouraging the parent company to provide equity, specific programmes to support commercialisation or regional funding schemes.

Access to specialised **services** was deemed crucial to give potential and first-time entrepreneurs the skills and knowledge required for running a company. Advice and mentoring schemes were amongst the favoured approaches. Contributors stressed the importance of providing the right blend of knowledge and practical experience.

Based on the principle that **entrepreneurs learn best from entrepreneurs**, some suggested in-house training for employees to building up business skills and encourage corporate entrepreneurship. The parent company could take on a mentoring role for the spin-off, providing support and managerial advice. Others would like multinationals to provide local SMEs access to their expertise as part of relocation packages.

The contributions recognised the need to **unlock the knowledge and expertise held in universities and higher education institutions**. Possible actions would address issues such as advice on IPR, access to well-equipped incubator space, development of management and business skills for academics, and stage-approach to finance. An increase of research spending should be accompanied by investments in marketing and commercialisation of RTD results. Networking among academic entrepreneurs will stimulate business opportunities while stronger links between academia and industry can create public-private partnerships.

Universities often appear reluctant to engage into commercial ventures, as this is not perceived as appropriate for academic institutions. Moreover, the risk of losing valuable members of staff along with relinquishing ownership of research results may discourage them from promoting a more entrepreneurial mindset among

researchers and academics. On the other hand, if academics are to be encouraged to become entrepreneurs, it is important to provide them with **re-entry schemes** to make the process less daunting.

2.9. Education for entrepreneurship

How can education support the development of the awareness and skills necessary for developing an entrepreneurial mindset and skills (entrepreneurship training as part of a school's curriculum, getting entrepreneurs into the classroom, apprenticeships for students to work with experienced entrepreneurs, more entrepreneurial training in universities, more MBA programmes, matching entrepreneurial training with public research programmes)?

Most contributions highlighted the **key role of education** to support the development of skills and attitudes as well as the need to change mindsets for achieving a more entrepreneurial society. Proposals for action focus on three main areas: direct exposure to entrepreneurship and the world of business, fostering entrepreneurial attitudes and skills, and finally training teachers.

Exposure to the business world and entrepreneurs was viewed as essential. Practical means to realise this could be using virtual enterprises or incubators, meeting local entrepreneurs, generalising the mini-company model (real or virtual) and the Young Enterprise contests, and organising company visits or internships. Incentives could be offered to help SMEs provide internships or on-the-job training. Entrepreneurs (or retired entrepreneurs) could be invited to speak about their experience as they can act as positive role models that could influence the future choices of students. Local businesses organisations and chambers of commerce should be involved in designing or teaching entrepreneurship courses and offering seminars or workshops.

Entrepreneurship education should favour the development of a variety of useful skills and personality traits: curiosity, openness to continuous learning, a proactive attitude, self-reliance and creativity. Other entrepreneurial skills mentioned were problem solving, critical thinking and inter-personal skills. The development of these aptitudes should start at **primary school** and be supported throughout the entire education period.

At **secondary school** and in the course of higher education and vocational training, students should be exposed to **business courses** that include marketing, management and leadership skills. Such direct exposure to entrepreneurship will help future graduates to consider entrepreneurship as a valuable career option. It was strongly recommended to include entrepreneurship in all non-commercial educational paths. The combination of school and work can be particularly useful.

In **higher education**, curricula should systematically include **entrepreneurship and management courses** in non-economic curricula. To encourage this, a yearly ranking could assess EU universities in terms of their performance on education for entrepreneurship and innovation. Another suggestion was to introduce a successful American experience that makes science students work together with business students. Contributions highlighted the need to strengthen the links between public-funded research, students and the business world.

Entrepreneurship education is important, but it does not forego the necessity of strengthening the acquisition of classical knowledge or **specialised skills**. To combine teaching of entrepreneurial and specific or technical skills, respondents suggested an approach that combines project-based learning and direct contact with entrepreneurs.

Training the teachers, especially at primary level, was identified as a prerequisite to entrepreneurship education. The trainers need to be given training time, materials and exposure to the business world as well as concrete examples of previously used courses to be able to teach entrepreneurship issues. Further ideas to improve trainers' knowledge included providing a sabbatical to work in industry or facilitated career moves between universities and business.

2.10. Promoting entrepreneurship

What could business organisations, the media and public authorities do to promote entrepreneurship (role models, media campaigns, open door days of firms, award schemes for entrepreneurs) and at what level (European, national, regional or local)?

Respondents largely agreed that the promotion of entrepreneurship should aim to change the image and recognise entrepreneurs' contribution to prosperity in Europe. Recommendations for action focused on awareness raising and encouraging more positive attitudes on entrepreneurship at different levels.

Awareness raising campaigns can promote a better image and understanding of entrepreneurs and also show the benefits of entrepreneurship. They could encompass a wide range of activities such as awards, press action, company visits and road-shows in the form of "entrepreneurship days" or an "entrepreneurial week".

The **role of the media** is key in raising awareness and changing attitudes towards entrepreneurship and risk-taking. The media, especially regional press and TV, should convey a more positive and realistic image of entrepreneurs and offer pedagogical programmes to familiarise people with business issues. Changing mentalities cannot happen overnight. Proposals for action included training journalists, creating awards for entrepreneurs, ensuring more media coverage of business fairs and events, identifying role models and success stories that can be interesting for the press.

Awareness campaigns should be encouraged or **co-ordinated at European level**, while the actions themselves should take place at **national, regional or local level**. The EU could provide a Europe-wide dimension to various initiatives and help exchange ideas and best practices. Companies, chambers of commerce and business organisations, should also be involved in such campaigns. Networking between the different actors involved is key to success.

Some suggested targeting awareness actions towards **certain categories of the population**. One target group mentioned was teachers and persons acting as multipliers towards younger generations. Other targets could be specific segments of the population, such as disadvantaged groups or groups, which are underrepresented amongst entrepreneurs (women, young people, ethnic minorities). Finally, some considered that **public authorities** should be more enterprising themselves and that the awareness of entrepreneurship should be raised among civil servants.

It is important to present **different forms of enterprises** (crafts, social enterprises, co-operatives) and the variety of **entrepreneurs**, both culturally and geographically. Entrepreneurs provide a valuable **contribution to our societies**. Companies that provide social services and act in a responsible manner towards their employees, the environment and the community deserve special attention and recognition. An example of such behaviour is given not only by social economy enterprises such as co-operatives, but also by an increasing number of commercially oriented firms.

3. CONCLUSIONS

3.1. Overall conclusions

The overwhelming majority of respondents supported the Green Paper's approach and priorities. The overall **constructive contributions** pointed to future priorities for policy and possible solutions, often including concrete proposals for action.

On the one hand, respondents largely confirmed the Commission's strategy and actions in favour of Entrepreneurship and SMEs, developed in recent years under the Multiannual Programme for Enterprise and Entrepreneurship¹¹. Many contributors suggested improving or fine-tuning certain policy initiatives or programmes based on their own experience or research findings.

Yet, on the other hand, respondents also raised **new topics**, for which they found that more action at Community level was needed to boost entrepreneurship in Europe. In some cases, respondents provided **less input** than expected. For example, there were relatively few comments on question 5 regarding enlargement, both from present EU Member States and Accession/Candidate Countries. This may be explained by the uncertainty over the effects of enlargement on entrepreneurial dynamism.

The most important challenges that resulted from the public consultation are indicated below. These will help set the future agenda for Entrepreneurship policy.

3.2. Key challenges

I. Continuing existing work

Respondents raised the need to continue work in the policy areas cited below, by making specific suggestions in order to proceed more effectively.

- **Administration and regulation.**
 - Rationalisation of administrative procedures and reduction of bureaucracy
 - Improved quality and clarity of legislation
 - Better regulatory impact assessment
 - Completing the Internal Market and better implementation at national level
- **Access to finance**
 - Promotion of loan guarantees, particularly for start ups and microloans
 - Strengthening the equity base of firms through favourable taxation of retained

¹¹ 'A Multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005)' - Council Decision (2000/819/EC), 20.12.2000.

- profits and better access to venture capital
- Promoting investment by individuals (family and friends, business angels)
- **Support and training services**
 - Improving the overall quality of support services
 - Tailoring services to users' needs and making them more accessible
 - Promoting support and training for expansion within and beyond the Internal Market and/or innovation such as, mentoring, learning networks or partnerships
 - Streamlined and easily accessible (one-stop) support structures
- **Innovation**
 - Promoting a culture of innovation in the business context
 - Protection of intellectual property and enforcement of IPR
 - Access to research programmes and the results from such programmes
 - Promoting spin-offs
- **Facilitating transfer of businesses**
 - Marketplaces to match supply and demand
 - Raising awareness about taking over a firm as an alternative to start-up
 - A more favourable tax and financial environment
 - Providing specific support and training measures
- **Entrepreneurship education**
 - Ensuring a wide availability of entrepreneurship education in schools and universities
 - Training and support for teachers
 - Exposure of pupils to the world of business (e.g. mini-companies)
- **Attitudes towards entrepreneurship, risk-taking and failure**
 - Awareness campaigns about entrepreneurship (role models, media)
 - Mitigating the negative consequences of bankruptcy
 - Promoting a second start for "honest" bankrupts
 - Highlighting the contribution of entrepreneurship to new demands within society

II. More work needed

Respondents also raised issues where, in the context of the entrepreneurship agenda, further action is needed. Further analysis is needed and, once there is a good overview of the dimension of these problems, suitable action can follow. The most pressing issues are:

- **Social protection for entrepreneurs**

Although equivalent social protection is not the goal –the status of entrepreneur and employee are inherently different-, the social rights of the self-employed should be reviewed to detect undue discriminatory effects in EU social protection regimes. Where an acceptable level of social protection is not available to entrepreneurs, there should at least be reasonable alternative, voluntary schemes.

- **Public procurement**

SMEs should be granted fair access to public markets. At present, public markets appear to be less accessible to SMEs due to the size and length of contracts, the complexity of tendering procedures and lack of knowledge about procedures.

- **State aids**

The current state aids regime aims to ensure a level playing field. Yet, certain elements may hinder new and fast growing, especially innovative, entrepreneurs, through its restrictions on the provision of finance and support.

- **Taxation**

There is a need to review the effects of tax structures on balance sheets so as to unlock the growth potential of firms. Other issues to be addressed are the complex procedures for tax issues in the Internal Market (e.g. single VAT rates).

- **Labour law complexity and inflexibility**

Labour law complexity and inflexibility are barriers to growth. The issues to be addressed include high labour costs as well as time-consuming and inflexible recruitment and restructuring procedures.

- **Internationalisation**

Internationalisation of businesses is key to growth. A number of measures to support business' efforts to internationalise should be examined including clustering, networking, and helping firms form strategic partnerships with e.g. mentors, investors or researchers.

- **The regional dimension**

Regions must be encouraged to play an important role in stimulating entrepreneurial activity because they can be best placed to provide well-targeted support and infrastructure. We must understand better the reasons for the diverging entrepreneurial performance of regions and undertake suitable action to support lagging regions.

3.3.Suggestions on the approach/implementation

The Commission must take into account the **diversity** of needs. Entrepreneurial dynamism varies strongly across the European Union. Furthermore entrepreneurs with different background and types of businesses also have different needs.

Many respondents subscribed to the Green Paper's suggestions for a **co-ordinated approach**, mainly by strengthening the open method of co-ordination¹². Some suggestions called for the use of benchmarks for entrepreneurship in Europe, backed

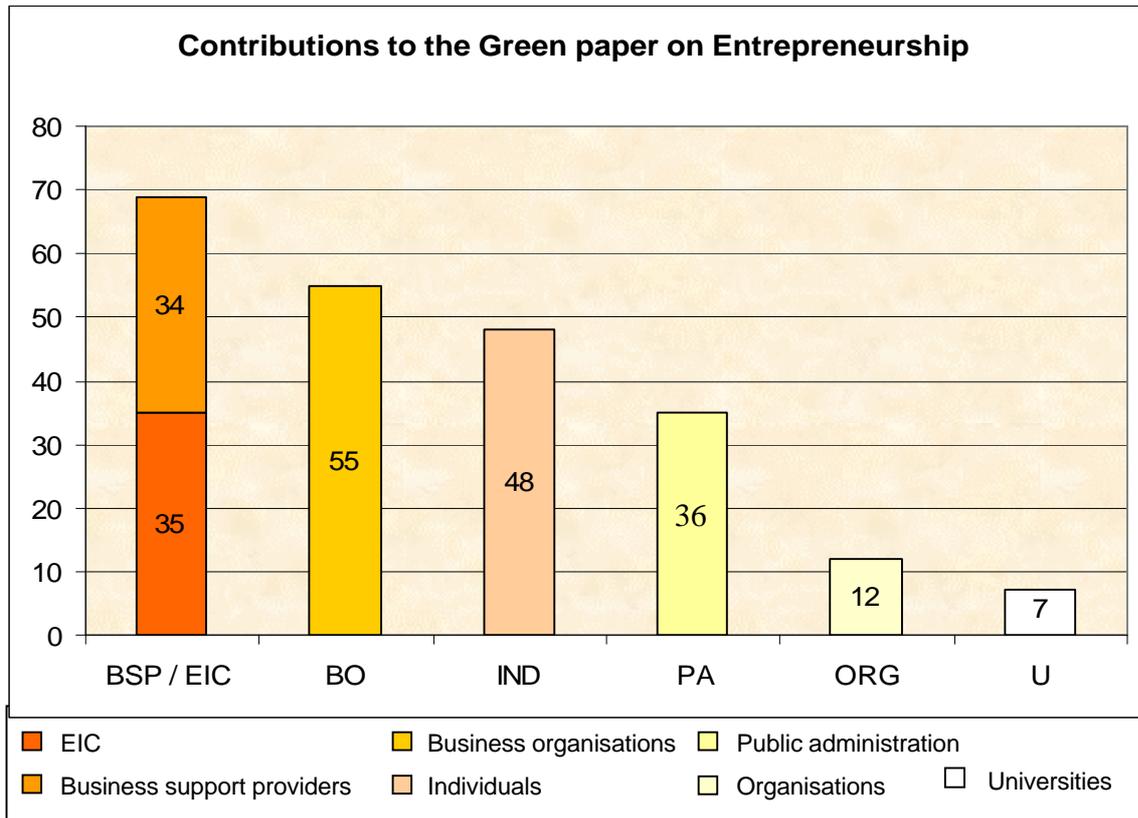
¹² Under this method the Commission provides a platform for exchange about issues of common interest to the Member States, allowing them to review and improve their own policies.

by indicators to measure progress. The multidimensional nature of entrepreneurship requires co-ordinated policy-making in different areas of activity.

Listening to SMEs is crucial at all levels of policy-making. Policy-makers should hold **systematic and active dialogue with SMEs** and their representatives and properly assess the impact of legislative initiatives on them. Also the relevance of existing legislation needs to be scrutinised. Within the Commission, the role of the SME Envoy could be strengthened.

ANNEX

Breakdown of contributions to GP consultation by type of organisation



Breakdown of contributions to GP consultation by country

