

Motivations to Scale

A policy playbook

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Startup
Europe
Partnership

Solving the scale-up gap together

Why do only 0.5 per cent of European startups scale?

Despite ongoing efforts to build startup-friendly ecosystems, European countries continue to suffer from a 'scale-up' gap, with a fraction of entrepreneurs able to overcome the hurdles needed to seek finance for growth.

Existing policy efforts have tried to address this gap, for example by improving the supply of finance for entrepreneurs, but still challenges persist. We know that increasing startups' likelihood to scale is important, not least because those that scale contribute disproportionately to the economy and society.

So what can **policymakers**, **businesses** and **investors** do to help close Europe's scale-up gap – aside from increasing the supply of money, talent and markets?

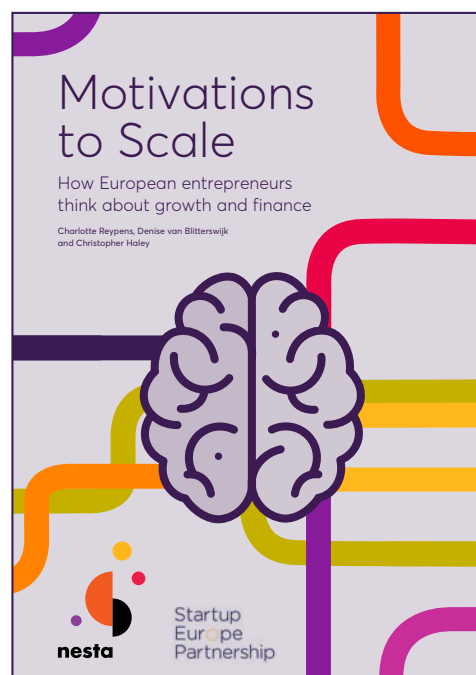
In the following pages we propose a set of policy recommendations based on a holistic view of the types of challenges that can hinder or even prevent entrepreneurs from scaling. To identify these challenges, this report focuses on the demand for growth and finance, that is, we examine entrepreneurs' motivations and perceptions to understand why some grow and seek finance, and others don't.

To help entrepreneurs beat the scaling odds, we highlight **three areas of intervention**. For each of these areas, we identify key actions and best practices across Europe, summarized in the policy framework on page 3.

This policy playbook summarises the key findings and recommendations from Nesta's report *Motivations to Scale: How European entrepreneurs think about growth and finance*. For more information about the full report and how to access it, see page 10.

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Policy framework to boost demand for growth and finance

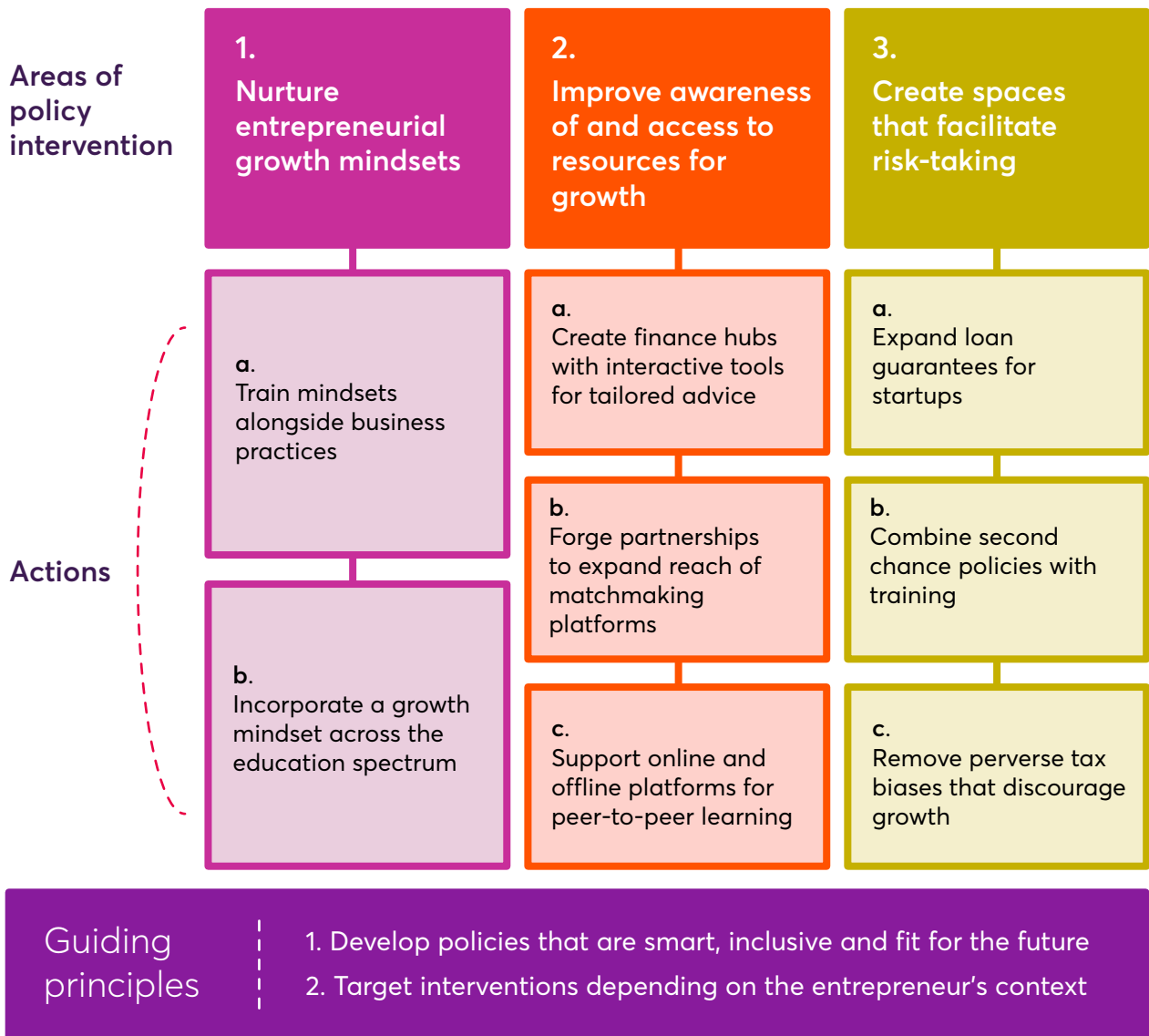


Figure 1: Policy framework to boost demand for growth and finance.

1

Nurture entrepreneurial growth mindsets

A key takeaway from our conversations with over 60 founders was that entrepreneurs have varying growth ambitions – some prefer to grow slowly, others pursue more aggressive growth and some do not want to grow at all. However, in entrepreneurs who have the motivation to scale, we found four main mindset features. Typically, these entrepreneurs want to create a positive impact on society, innovate, become a dominant player in their field and create value.

An entrepreneurial growth mindset does not develop overnight, but can be nurtured.

Proposed policy actions to boost entrepreneurial attitudes to growth.

Recommendations

- 1. Train mindsets alongside business practices.** Recent experimental evidence suggests that mindset training can be more effective than traditional business training. We recommend piloting an evaluation programme to better understand and measure how training can help entrepreneurs develop an entrepreneurial growth mindset and achieve business growth.
- 2. Incorporate a growth mindset across the education spectrum.** Research suggests that childhood and adolescence are ideal times to teach entrepreneurship education and shape mindsets. Yet, most programmes only focus on higher education. Following emerging research on the benefits of early exposure to innovation, we call for increasing exposure to entrepreneurship as early as during primary education.

Entrepreneurs' growth mindset features

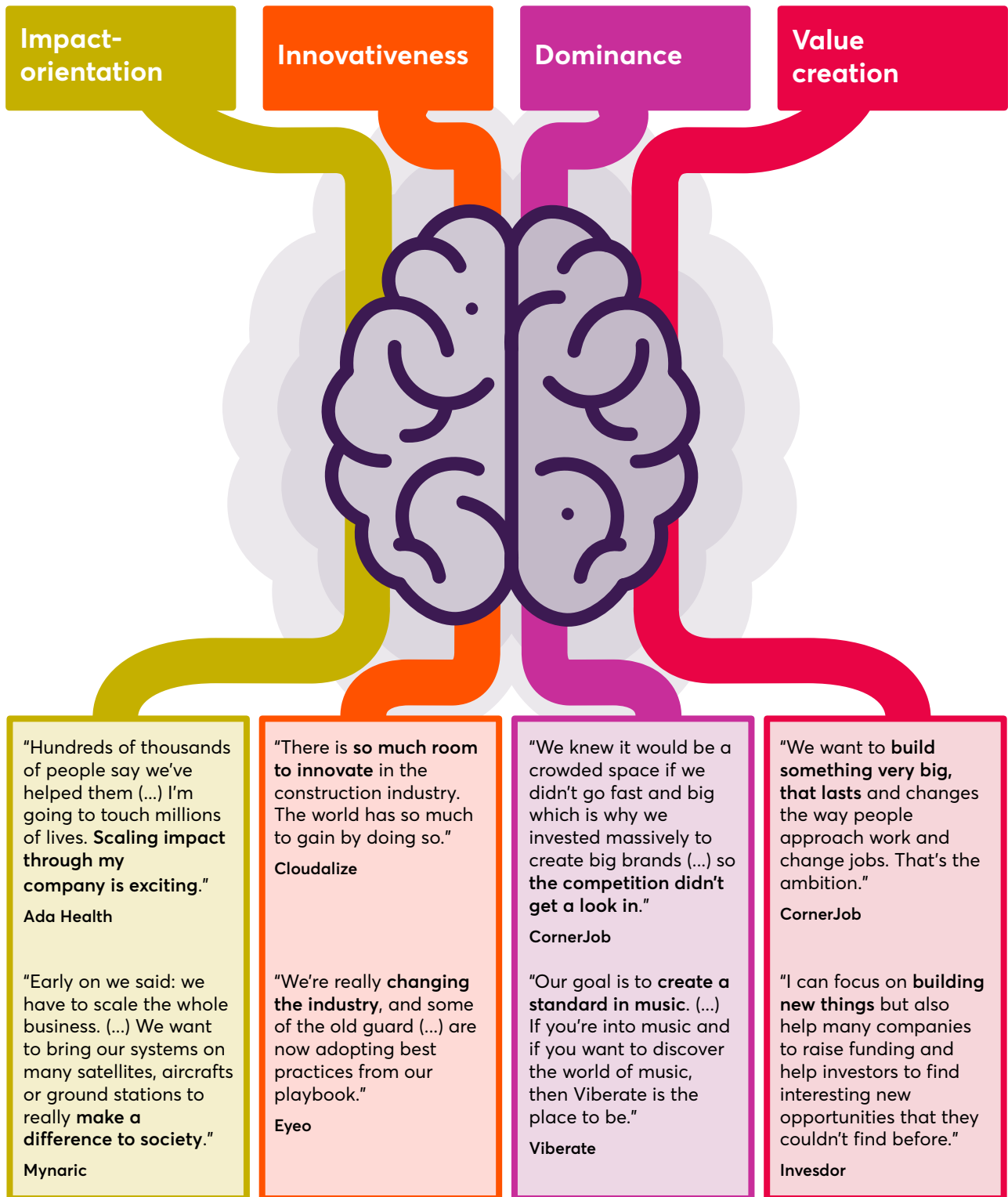


Figure 2: Growth mindset features. Quotes from interviews with scaling founders across Europe.

2

Improve awareness of and access to resources for growth

While a lot of work is done to provide support initiatives for growing businesses, many entrepreneurs simply don't know about them, question their relevance, or feel the support does not fit their growth phase.

Among European startups, around 70-80 per cent of entrepreneurs do not consider the support provided by various organisations helpful – only a minority rate it as good or perfect. In the UK, four out of ten scaleup leaders do not perceive relevant support available to them.

Proposed policy actions to improve support and match it to the needs of growth entrepreneurs.

Recommendations

- 1. Create finance hubs with interactive tools for tailored advice.** Research shows many entrepreneurs lack an in-depth understanding of different types of finance and their suitability. We recommend creating interactive tools, such as the British Business Bank's Finance Hub and the Dutch Financieringswijzer, to demystify finance options and help entrepreneurs decide which types of finance and support work best for their needs and wants.
- 2. Forge partnerships to expand the reach of matchmaking platforms.** Matchmaking platforms help entrepreneurs find investors (and vice versa), but are often limited to country level and lack a focus on growth finance. We propose increasing the reach of current platforms such as the European Investment Project Portal by partnering across European countries.
- 3. Support online and offline peer-to-peer learning.** Research suggests that entrepreneurs benefit from peer-to-peer learning. We recommend policymakers support the design of platforms which bring together entrepreneurs on an international, national and local level, such as through business networks and the Erasmus for Young Entrepreneurs programme.

How European entrepreneurs rate support from...

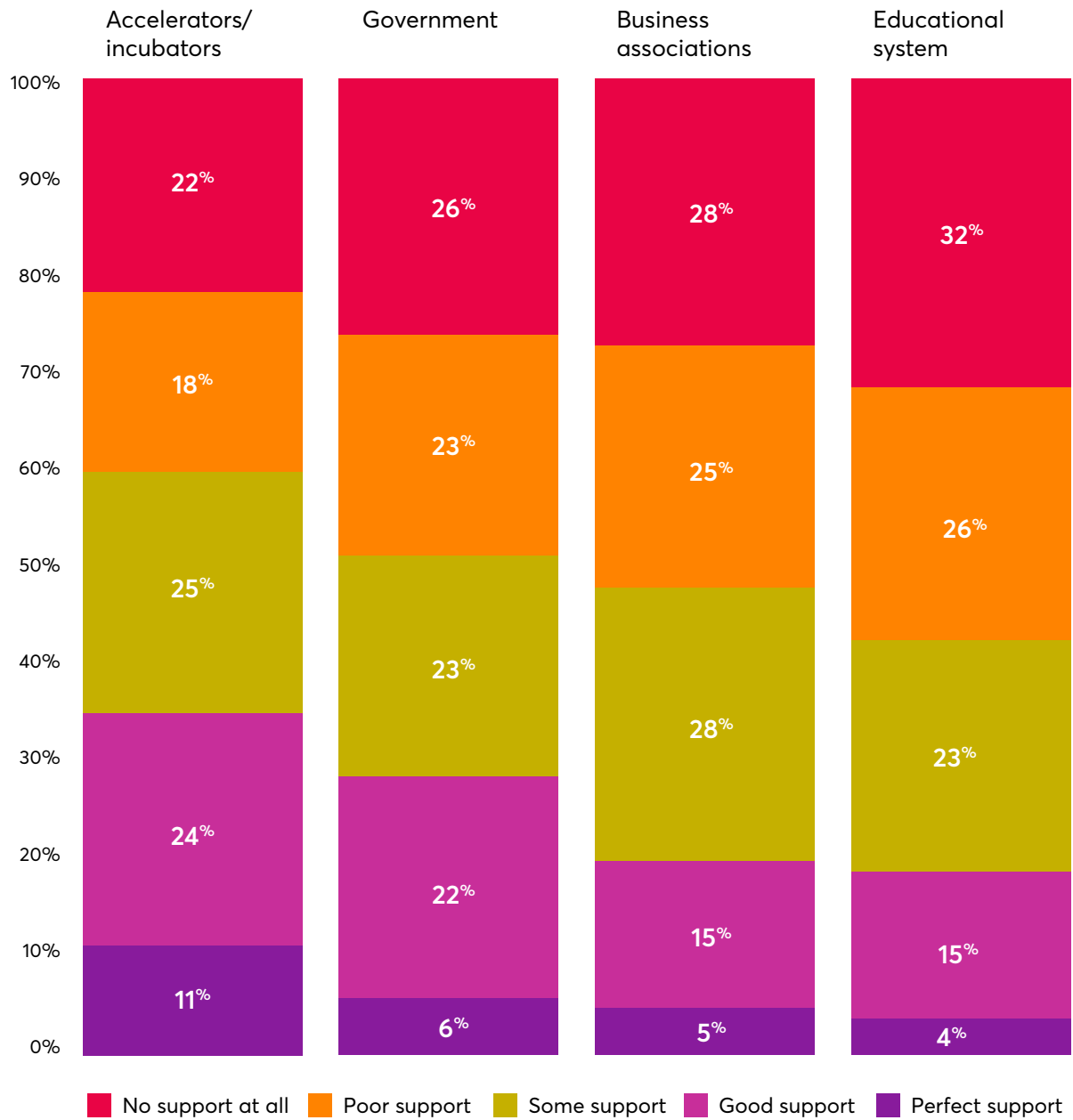


Figure 3: How European startups rate support from the government, business associations, educational system and accelerators/incubators. Source: own creation based on EU Startup Monitor 2018.

3

Create spaces for risk-taking

Growing a business is an inherently risky process. In contrast to common perception, there is no shortage of risk-seeking entrepreneurs in Europe — more than half of entrepreneurs self-report as risk-seeking. Yet the strains put on entrepreneurs, such as having to face rejection when seeking external finance, the cost of failure and the possibility of having to give up control of their business, can make entrepreneurs hesitant to pursue growth.

A third area for policy intervention therefore involves supporting entrepreneurs in taking and managing the risks associated with growth.

Proposed policy actions to incentivise entrepreneurs to build and grow their business (even if they fail).

Recommendations

- 1. Expand loan guarantees for startups.** Terms of loans can influence entrepreneurs' risk-taking behaviour. Moreover, recent evidence suggests that loan guarantees can be an important lever to boost the growth of startups. We recommend policymakers to weigh the cost and benefits of such guarantees, and consider expanding them with a focus on startups.
- 2. Combine second chance policies for restarters with training.** Given the low survival rates of startups, many are likely to face failure. To encourage entrepreneurs to try again, we recommend second chance policies for restarters. These should be supplemented with targeted support to maximise learning from prior failure, for example in the form of mindset training.
- 3. Remove perverse tax biases that discourage growth.** Businesses up to a certain size often benefit from lower tax rates or tax exemptions. While these benefits help entrepreneurs start and survive, they may discourage growth, since entrepreneurs would lose benefits when they grow beyond a certain threshold. We urge policymakers to carefully consider the effect of such 'cliff edges', and to remove existing tax biases where they exist.

Risk propensity of European entrepreneurs

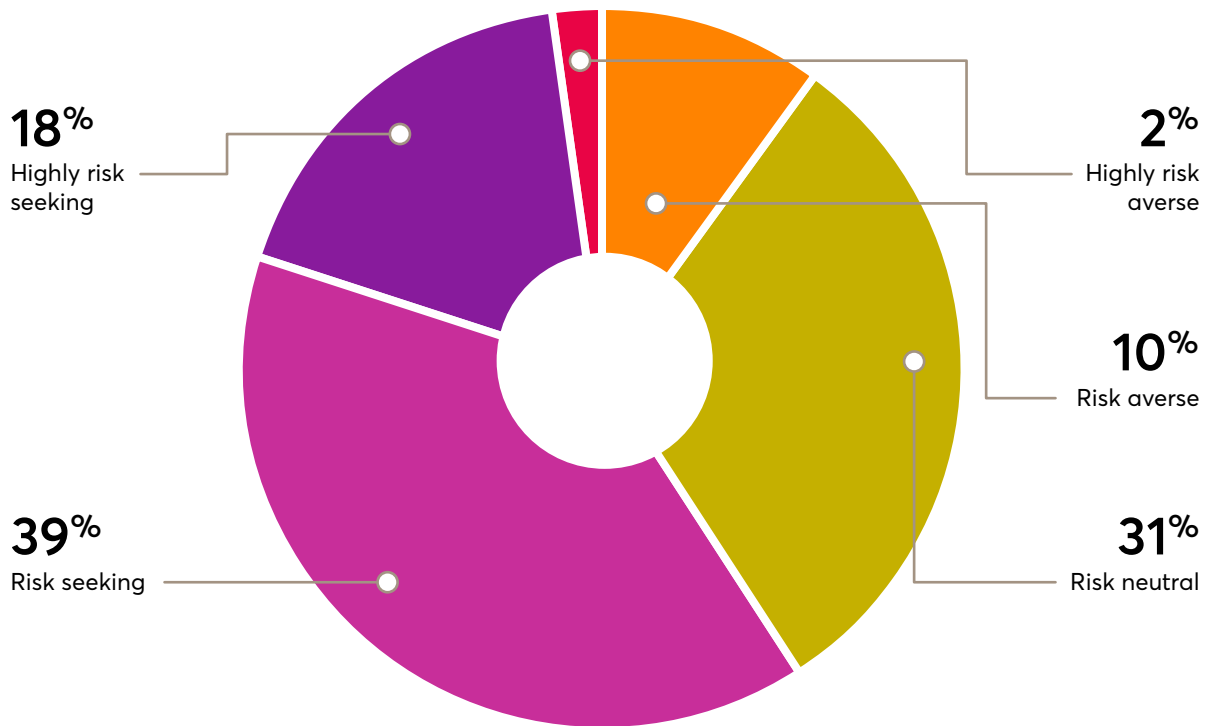


Figure 4: Risk propensity of European startups. Source: own creation based on EU Startup Monitor 2018.

About Motivations to Scale

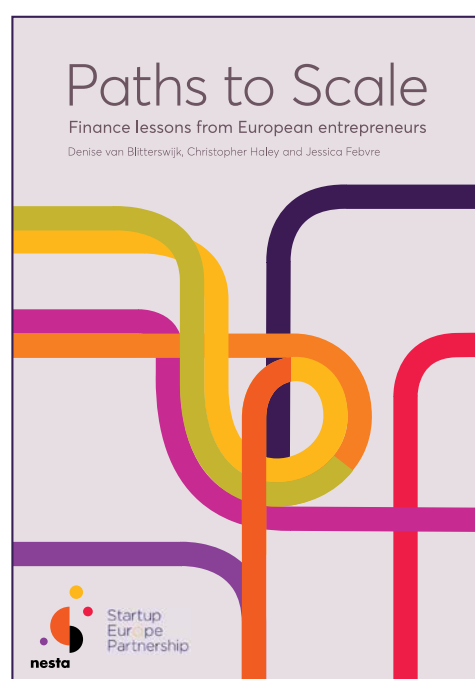
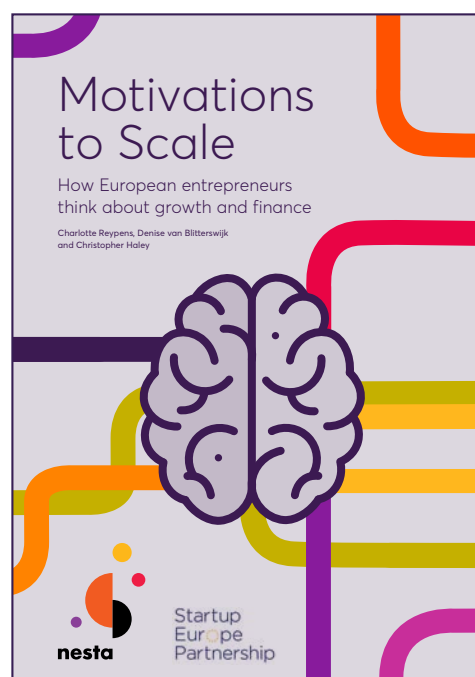
Nesta's *Motivations to Scale* report aims to explain why few startups scale, by exploring European entrepreneurs' motivations to grow and seek finance. In the report, we identified the key hurdles entrepreneurs face on their paths to scaling. We found that key hurdles to overcome include a lack of a growth mindset, little awareness of finance options, and a lack of time and confidence to speak to investors and raise capital. These hurdles explain why only few entrepreneurs in Europe scale their business: we estimate that at most two per cent are likely to overcome all hurdles. To help entrepreneurs beat the scaling odds, we recommend three areas for policy intervention, as summarized in this policy playbook.

Method

The findings and recommendations in the *Motivations to Scale* report are based on an analysis of a mixture of qualitative and quantitative data from various data sources, including Eurostat, Startup Genome, European Investment Bank, Survey on the Access to Finance of Enterprises (SAFE), the European Scaleup Report, the ScaleUp Institute, the European Startup Monitor (ESM) and the Global Entrepreneurship Monitor (GEM). This was supplemented with primary qualitative data from 26 in-depth interviews with European founders who scaled their businesses through various finance routes, together with material from seven roundtable discussions with a total of 38 European entrepreneurs. The roundtable discussions were hosted at the SEP Scaleup Summit in Milan, the Startup Europe Summit in Cluj-Napoca and Startup Olé in Salamanca.

Related work

In another Nesta report, *Paths to Scale*, we outlined the various financing routes entrepreneurs can take when planning their growth strategy, including (corporate) venture capital, private placements, initial coin offerings (ICOs) and initial public offerings (IPOs). This report is both educational and inspirational, combining a practical guide to finance with real-life examples which demystify different finance options.



About Nesta

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We use our expertise, skills and funding in areas where there are big challenges facing society.

Nesta is based in the UK and supported by a financial endowment. We work with partners around the globe to bring bold ideas to life to change the world for good.

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About Startup Europe Partnership (SEP)

Established by the European Commission in January 2014 at the World Economic Forum in Davos, the Startup Europe Partnership (SEP) is the first pan-European platform dedicated to transforming European startups into scaleups by linking them with global corporations and stock exchanges.

SEP is led by Mind the Bridge, an organisation based in Italy and the United States, which connects European entrepreneurial ecosystems to Silicon Valley, together with Nesta, the London Stock Exchange ELITE programme, the European Startup Network, the ScaleUp Institute, and the Bisite Accelerator.

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