

Motivations to Scale

How European entrepreneurs
think about growth and finance

Charlotte Reypens, Denise van Blitterswijk
and Christopher Haley



Startup
Europe
Partnership

About Nesta

Nesta is an innovation foundation. For us, innovation means turning bold ideas into reality and changing lives for the better.

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.

www.nesta.org.uk  [@nesta_uk](https://twitter.com/nesta_uk)

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.

www.startupeuropepartnership.eu  [@sep_eu](https://twitter.com/sep_eu)

This report was produced by Nesta as part of The Startup Europe Partnership project. This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 780601.

The principal authors were Charlotte Reypens, Denise van Blitterswijk and Christopher Haley.

Version number: 1.0 June 2019

©Nesta 2019. This work is made available under a Creative Commons Attribution-ShareAlike Licence 4.0 (international).

If you'd like this publication in an alternative format such as Braille, large print or audio, please contact us at: information@nesta.org.uk

Design: Green Doe Graphic Design Ltd



Startup
Europe
Partnership



Contents

Executive summary	4	⑤ The finance paths that European entrepreneurs take	38
① State of starting and scaling in Europe	5	5.1 Motivations behind seeking various finance paths	38
1.1 Current policy focus: supply side	7	5.2 Where entrepreneurs seek finance	40
1.2 Towards a demand-side focus	8	5.3 Finance fuels a range of growth plans	42
1.3 External finance as a key growth factor	8		
1.4 About this report	9		
② Why do few startups scale?	11	⑥ Focus areas for policy intervention	44
③ What motivates European entrepreneurs grow?	15	6.1 Nurture entrepreneurial growth mindsets	46
3.1 Varying growth ambitions across Europe	15	6.2 Improve awareness of and access to resources for growth	48
3.2 Features of an entrepreneurial growth mindset	17	6.3 Create spaces to facilitate risk-taking	51
3.3 Determinants of growth ability	22	6.4 Develop policies that are smart, inclusive and fit for the future	54
3.4 Growth triggers	26	6.5 Develop targeted policies to fit the entrepreneur's context	58
④ What motivates European entrepreneurs to seek finance?	29	⑦ Conclusions	59
4.1 Link between external finance and growth	29	⑧ Overview of financing paths	61
4.2 Hurdles to seeking external finance	30	⑨ Glossary	62
		⑩ Acknowledgements	63
		⑪ References and endnotes	64

Executive summary

Why do only 0.5 per cent of startups scale? Most attempts to answer this question focus on the supply of talent, markets, finance or other environmental factors. This report offers a different perspective by looking at entrepreneurs' demand for growth and finance, a less explored driver of scaling. To understand better this demand, we investigate how European entrepreneurs think about growth and finance, based on interviews and roundtables with 64 European entrepreneurs, combined with an extensive review of various European data sources.

Chapter 1 reviews the current state of starting and scaling in Europe. Few startups are likely to scale – many do not survive, and those that do typically stay small even ten years after their establishment. Increasing startups' likelihood to scale is important, we argue, because those that scale contribute disproportionately to economic and social welfare.

Chapter 2 offers an explanation for why few startups scale. We suggest that the process of scaling puts large cognitive demands on entrepreneurs. Not only do they need the right motivations, mindset and skills to grow, they also need to know how and where to seek finance to fuel that growth. These requirements can pose substantial hurdles for many entrepreneurs: based on a review of various European data sources, we estimate that only two out of a hundred are likely to overcome the demand-side hurdles to seeking finance for growth. Chapters 3 and 4 elaborate on each of these hurdles.

Chapter 3 delves deeper into entrepreneurs' motivations, mindset and skills for growth. We suggest that growth entrepreneurs have four mindset features in common: they voice a strong desire for creating a positive impact on society, innovating, being a dominant player in their field and building a value-creating business. We also highlight that growth often is an emergent process, triggered by five types of growth triggers: personal, social, business, financial and environmental.

Chapter 4 zooms in on a key growth factor: external finance. We first analyse how many entrepreneurs are aware of finance options and would consider external finance. Next, we consider to what extent entrepreneurs are ready to put in time and effort to seek finance and are confident speaking to investors. Finally, we assess the risk preferences of European entrepreneurs.

Chapter 5 offers a peek into the minds of high-growth entrepreneurs and their financing decisions. We explore their motivations behind seeking different types of finance and the decision to go public versus remaining private and/or selling their business. We also examine why European entrepreneurs choose to float in certain stock exchanges over the others. Finally, we examine scaleups' plans for growth through various finance routes.

Chapter 6 highlights three areas for policy intervention to help entrepreneurs overcome demand-side hurdles and access the finance they need. We call for nurturing entrepreneurial growth mindsets, improving awareness and access to resources for growth and creating spaces for risk-taking.

1

State of starting and scaling in Europe

Europe is home to many startups, but has trouble scaling them: they often remain small (one to three employees) and stay in local markets.^{1,2} Of the 2.4 million European newborn businesses in 2011, just over four in ten survived after five years.^{3,4} The ones that did survive, on average grew only slightly: they created three jobs in those five years (Figure 1). Ten-year survival rates are bleaker: out of every ten businesses born, between one and three survive a decade after their establishment.^{5,6} Surviving businesses created between seven and 17 jobs in a decade, recording an annual average growth rate of three to 7.5 per cent.

Survival and growth of European businesses

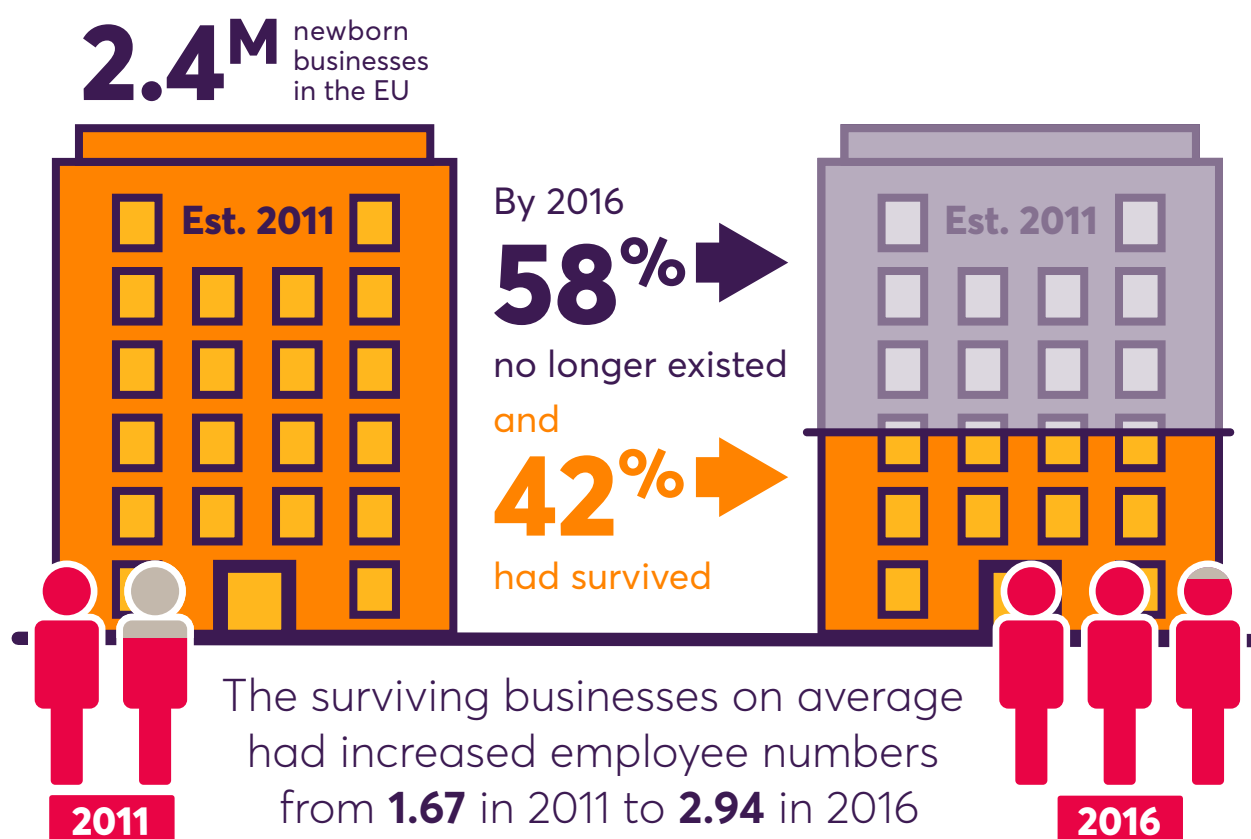


Figure 1: Birth, survival and employment rates in European businesses. Source: Eurostat.

Deconstructing these growth rates shows that overall differences in job creation between countries are explained by the growth rate of the smallest firms, driven by a small number of rapidly growing firms.⁵ These firms were exceptional – most small firms are born small and stay small even after ten years.

These findings indicate that few startups are likely to become scaleups (see Box 1 for definition). Research by Deloitte suggests that **the chance of a new enterprise scaling is about 0.5 per cent**.^{7, 8} Eurostat data reveals a similar pattern: the share of high-growth young enterprises in the population of active enterprises is as low as 0.39 per cent (Romania) or 0.41 per cent (Norway), with some ecosystems performing better with shares of 1.91 per cent (Lithuania) or 3.26 per cent (Hungary).⁹ In absolute numbers, Eurostat reported a total of 176,615 high-growth enterprises in 2016 in Europe, which represents 0.65 per cent of the population of active enterprises in that year.³

Although scaleups represent only a small percentage of all businesses in Europe, they contribute disproportionately to economic and social welfare. In particular, evidence suggests that scaleups:

1. **Drive job creation.** Six per cent of UK businesses – those with the highest growth rates – created half of the new jobs in existing businesses between 2002 and 2008;¹⁰ research in other countries shows a similar pattern.⁵
2. **Boost productivity.** Compared to the average UK firm, scaleups are at least ten per cent more productive in terms of turnover per employee in the majority of sectors.¹¹
3. **Contribute to a more inclusive, diverse workforce.** Some evidence shows that high-growth entrepreneurial firms create higher-quality jobs and are more likely to recruit people from disadvantaged groups (e.g. those without a college degree or who were previously unemployed).¹²
4. **Generate knowledge spillovers and act as role models** for other entrepreneurs, thereby helping to strengthen the competitive position of the broader ecosystem they are embedded in.^{13, 14}

Box 1: Defining SMEs, startups, scaleups

We consider startups and scaleups to be specialised subsets of SMEs. In our view, they have particular characteristics and needs which often warrant more targeted interventions. We therefore take the view that policymakers should distinguish between policies directed at SMEs and startups/scaleups, and we use the following definitions in this report:

SMEs: micro, small and medium enterprises employing fewer than 250 people and with an annual turnover not exceeding €50 million, and/or an annual balance sheet total not exceeding €43 million.¹⁵ This group represents 99 per cent of all businesses in Europe. These businesses include lifestyle businesses or businesses run on the side, which are not necessarily designed to grow.

Startups: development-stage businesses that are looking to grow in terms of market access, revenues and number of employees, but are still in search of a repeatable and scalable business model.¹⁶ These businesses are often innovative and tend to operate in high-tech markets.

Scaleups: For the purpose of this report, scaleup businesses are defined as those that are past the startup/search phase, but are in the execution phase of their business model, with significant growth in terms of revenues and number of employees. A range of data has been utilised in this report observing businesses in the scaleup and scaling phase across OECD definitions, but these businesses have in common that they experience high growth over a repeated period in time.¹⁷

Whilst we focus on startups and scaleups, where there is a lack of sufficient data we sometimes report data on SMEs or early-stage entrepreneurs instead.

1.1 Current policy focus: supply side

Given scaleups' impact on the economy, it is no surprise that researchers and policymakers aim to help startups scale in a meaningful way over time. Prior Nesta research efforts, for example, improved our understanding of how collaboration with corporates can support startups (see *Scaling Together*¹⁸ and *Winning Together*¹⁹) and the various finance options available to startups to grow their business (*Paths to Scale*²⁰). There have also been calls for policy changes, resulting for example in the *Scale Up Europe Manifesto*²¹ and *Startup and Scaleup Ecosystem: Recommendations for Policy Change*.²²

Typically, interventions target the 'supply side' of entrepreneurship: how policymakers can support the creation of productive ecosystems, with sufficient access to finance, a skilled talent pool and management, access to markets and an appropriate infrastructure for startups with high growth expectations/ambitions.²³ In relation to finance specifically, the issue of decreasing funding gaps for startups and scaleups, especially in terms of venture capital, has long been a focus of policy interventions.

1.2 Towards a demand-side focus

Alongside these supply-side interventions, policymakers need to consider the 'demand side' of growth and financing, a complementary, but less understood area of research and policy. Looking at the demand side requires assessing how cognitive factors such as entrepreneurs' motivations, perceptions and mindsets influence growth and financing decisions.²⁴

A demand-side approach directly links a startup's growth potential to the (cognitive) characteristics of entrepreneurs, with a particular focus on the willingness and ability of entrepreneurs to pursue high growth and seek external finance.^{25, 26} Increasingly, policy is focusing on the demand side, asking **how can we motivate more entrepreneurs to seek high growth and raise external finance?** To answer this question, a better understanding is required of why growth and seeking finance is seen as desirable and feasible by some entrepreneurs, but not (yet) by others.²⁶ This approach is in contrast to the supply-side approach that emphasises the availability and investment of capital for entrepreneurs.

Whilst we focus on the demand side throughout this report, we recognise that demand-side factors are heavily influenced by factors on the supply side. For example, the availability of capital and the risk behaviour of investors can influence entrepreneurs' demand for finance.

We acknowledge that not all entrepreneurs necessarily want to or should grow: many lifestyle businesses or traditional small businesses stay small. As mentioned in Box 1, this report focuses on startups and scaleups: that is, those entrepreneurs who have the potential to scale and would benefit from external finance to support that scaling.

1.3 External finance as a key growth factor

This report zooms in on one key growth factor: external finance. External finance is any type of finance that comes from outside the business, and is typically grouped into three categories: grants, equity and debt (for more information on the distinction between the three, please refer to Nesta's *Paths to Scale* report).²⁰ For an overview of various types of finance, see Chapter 8.

There are many paths to scale. Naturally, there is a wide variety in the extent of entrepreneurs' growth ambitions and how they plan to finance that growth – some entrepreneurs may successfully scale using internal finance only. However, research suggests that **firms that use external finance grow more rapidly than those that do not.**^{27, 28, 29} Yet, different data sources indicate that European entrepreneurs seem to shy away from external finance, especially equity finance (see section 4.1).

From a policy perspective, it is key to understand entrepreneurs' motivations to seek (different types of) finance. For example, do startups have high growth ambitions, but struggle to access finance, perhaps due to a lack of time or confidence in talking to investors or because their business models lack scalability? Or do they forgo the opportunity to seek external finance, perhaps due to the inherent risks involved or perceptions about the suitability of such finance? Different reasons clearly call for different policy instruments.

1.4 About this report

In a previous 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).²⁰ Here, we focus specifically on the motivations behind entrepreneurs' decisions to grow and seek external finance (or not), and the reasons for choosing a specific financing route and location. This report also builds on Nesta's prior work to understand the demand for finance in the arts and culture sector.¹⁰⁹

We ask

1. What motivates and triggers European entrepreneurs to grow?
2. What motivates or hinders European entrepreneurs to seek finance to fuel growth?
3. What motivates European entrepreneurs to choose one financing route over the other?
 - a. Why do they choose to go public or remain private or sell?
 - b. Why do they choose to float on certain stock exchanges over others?
 - c. What are their plans for growth through different routes?

Method

This report was based on 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.

Depending on the data source we report, the sample of entrepreneurs differs (see glossary for definitions). The GEM sample includes early-stage entrepreneurs in 18 European countries. Startup Genome surveyed founders in nine European startup ecosystems (London, Amsterdam, Helsinki, Malta, Paris, Barcelona, Stockholm, Frankfurt and Berlin). The sample from the ScaleUp Institute includes scaleups in the UK. The sample from SAFE includes 'gazelles' from 28 European countries. The sample from ESM includes startups in 18 European countries. Our internal research includes startups and scaleups across Europe.

Outcomes

This report focuses on the demand-side hurdles entrepreneurs may face on their paths to scaling. The aim is to understand better how to increase the likelihood of startups to scale, ultimately to help them beat the odds and boost their impact on economic and social welfare.

The main goal of this report is to inform policymakers who support entrepreneurs in scaling and planning their financing strategies for growth. We find that the growth process is often emergent, initiated by trigger events, rather than a deliberately planned strategy. These trigger events are key points for policy intervention: after these points, support in the form of training or financial advice is likely to have a direct impact on whether entrepreneurs are able to overcome hurdles to growth and capitalise on the growth opportunity. Key hurdles to overcome among European entrepreneurs 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 startups in Europe scale: we estimate that at most two per cent are likely to overcome all of them.

To help entrepreneurs beat the odds, we highlight the following areas of intervention:

1. Nurture entrepreneurial growth mindsets
2. Improve entrepreneurs' awareness of and access to resources for growth
3. Create spaces to facilitate risk-taking

For each of these areas, we identify key actions and best practices across Europe.

2

Why do few startups scale?

European startups that scale seem to be a rare occurrence. As mentioned, research by Deloitte suggests that the chance of a new enterprise to scale is about 0.5 per cent.^{7, 8} Eurostat data shows that the share of young high-growth enterprises in the population of active enterprises is as low as 0.39 per cent (Romania) or 0.41 per cent (Norway), with some ecosystems performing better with shares of 1.91 per cent (Lithuania) or 3.26 per cent (Hungary).³ In absolute numbers, Eurostat reported a total of 176,615 high-growth enterprises in 2016 in Europe, which equates to 0.65 per cent of the population of active enterprises in that year.

To understand why so few startups scale, we examine how European entrepreneurs think about high growth and external finance, guided by research on entrepreneurial cognition.^{24, 26} Cognition research aims to understand how entrepreneurs make decisions.^{30, 31} Here we focus on entrepreneurs' growth and finance decisions, and the motivations, mindsets and perceptions that underlie them, ultimately to identify the demand-side hurdles entrepreneurs face in their decision process.

Figure 2 summarises the growth and finance decisions entrepreneurs make on their paths to scaling. These decisions can be deliberate (e.g. choosing a business model), or more subconscious (e.g. the willingness to bear risk). Each entrepreneur will face these decisions in a different way at different points in time, making scaling a highly personal and idiosyncratic process.

The key demand-side hurdles entrepreneurs face on their paths to scaling

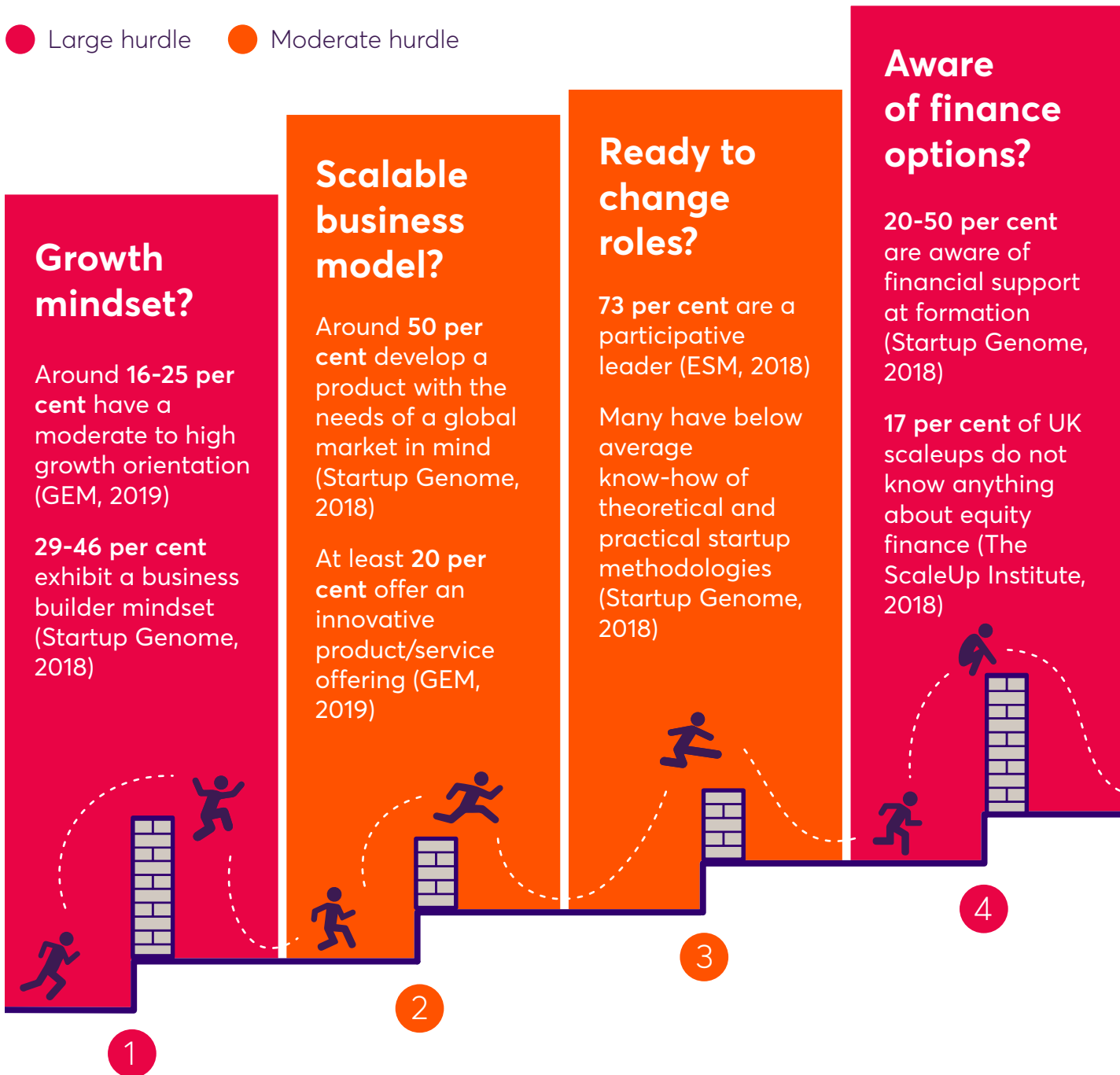
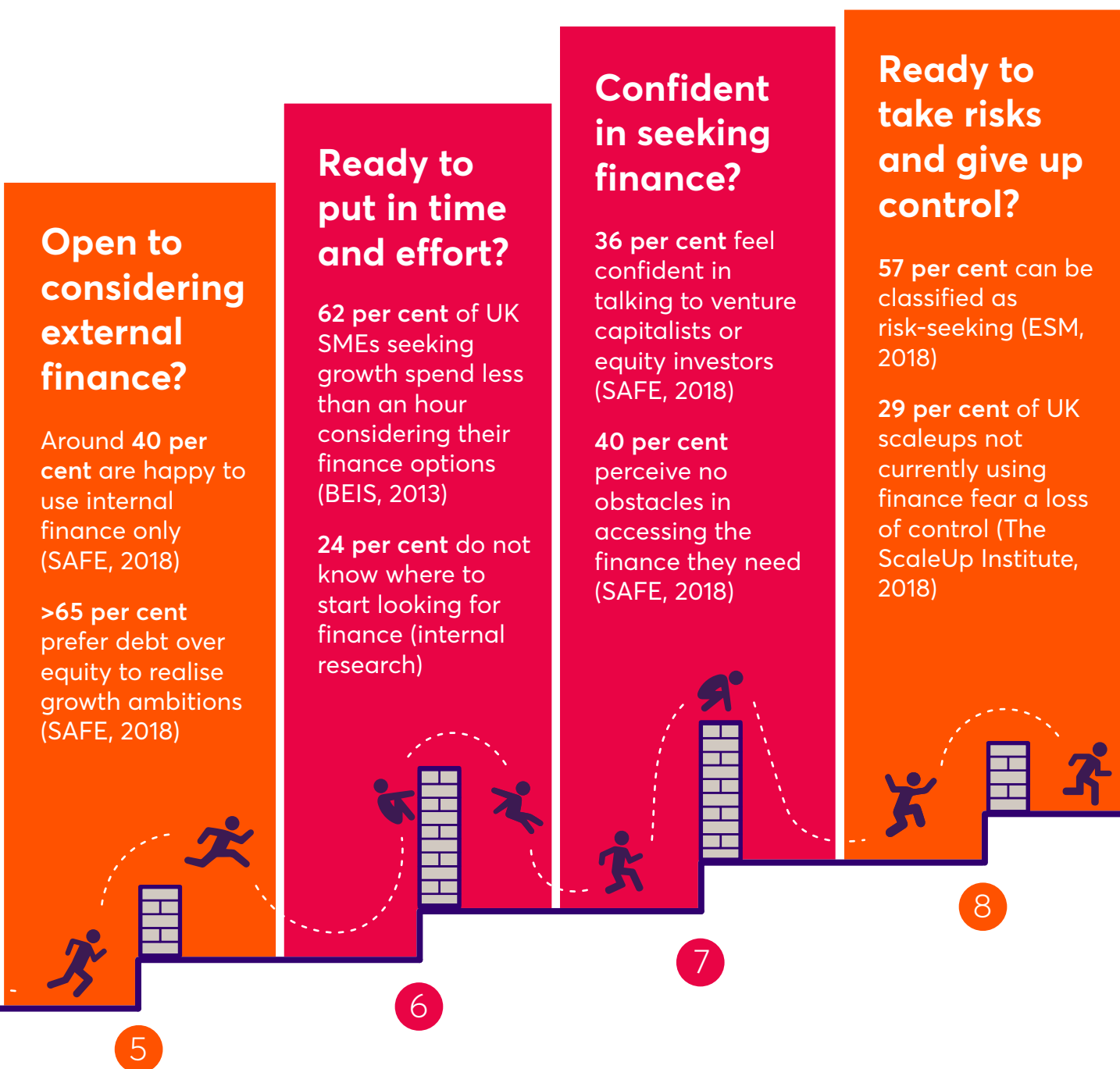


Figure 2: The key demand-side hurdles entrepreneurs face on their paths to scaling. Disclaimer: This figure brings together data from a variety of European data sources, some of which may not be strictly comparable and/or which use different methodologies. We recommend that readers check the original reports for further information on their methodology.



Only **±2%** of startups are likely to overcome all hurdles

The entrepreneurial path to scaling clearly puts large cognitive demands on entrepreneurs: among other things, they need to have a growth mindset, be aware of various finance options and have the confidence to speak to investors. Figure 2 shows the estimated proportion of entrepreneurs that report to meet these demands, based on various European data sources.³²

The data highlights that only a minority of entrepreneurs report to meet these various demands. **This finding hints at why few European entrepreneurs scale and seek external finance for growth: the majority are likely to face one or more (cognitive) hurdles on their paths to scaling.** Based on these proportions drawn from various data sources, we estimate the number of entrepreneurs who are likely to meet all demands, that is, they have a growth mindset, have a scalable business model, are aware of the finance options available to them, would consider using external finance, are ready to put in time and effort, are confident speaking to investors, are ready to change roles and finally, are ready to seek risk and give up control. By piecing together data sources, we estimate that at best around two per cent of entrepreneurs are likely to meet all these demands, assuming that these are 'independent' events.³³ In other words, **out of 100 startups (that survive) only two are likely to be ready to seek external finance for growth.** In the worst case, less than 0.01 per cent would meet all criteria. As a result, entrepreneurs who seek to scale up using external finance truly have to beat the odds.

From a policy perspective, it is important to better understand and ultimately alleviate these hurdles. In Chapters 3 and 4, we elaborate on the factors that may constrain entrepreneurs' growth and financing decisions. In Chapter 6, we suggest areas for policy intervention that can support entrepreneurs in seeking finance for growth.

3

What motivates European entrepreneurs to grow?

3.1 Varying growth ambitions across Europe

European entrepreneurs vary in their growth ambitions, across countries and ecosystems. Not every entrepreneur wants to grow: some are happy running a 'lifestyle business' which generates a comfortable income (perhaps started out of necessity rather than opportunity); others may run a business 'on the side' of their main employment, and may not (yet) be willing to invest the time and energy for growth.

Some research has tried to measure the growth ambitions of entrepreneurs, for example by looking at the jobs they expect to create. In many European countries, **around one in four or one in six early-stage entrepreneurs report to have a moderate to high growth orientation** (Figure 3), expecting to create six or more jobs in the next five years.^{34, 35} However, growth ambitions vary widely between countries, ranging from 2.5 per cent in Bulgaria up to 43.7 per cent in Ireland.

European entrepreneurs with moderate/high growth orientation

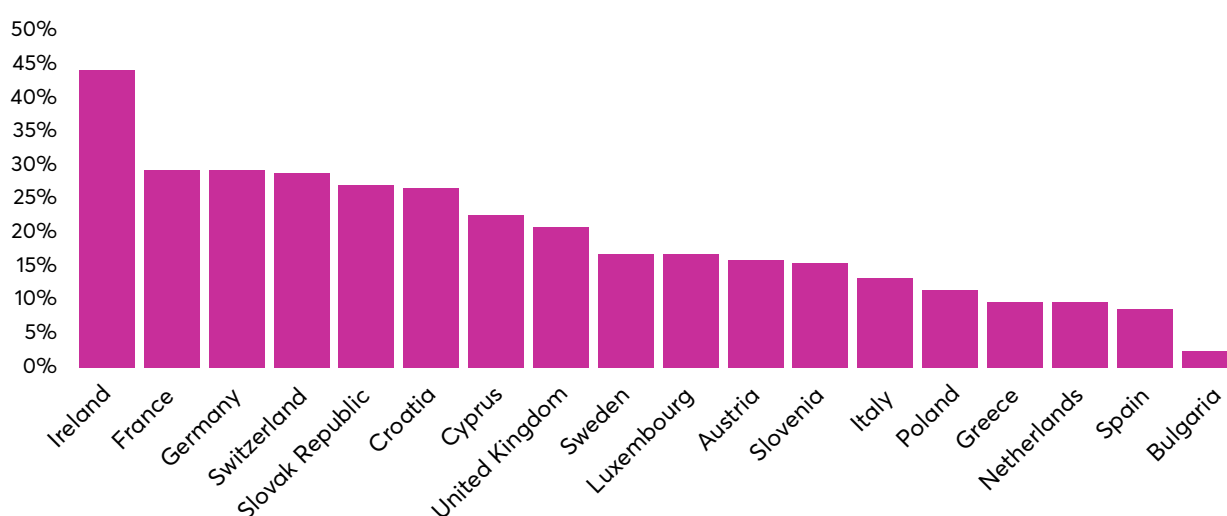


Figure 3: The percentage of early-stage entrepreneurs with moderate to high growth orientation. Source: own creation based on GEM 2019.

There is also substantial variation in entrepreneurs' growth ambitions across European startup ecosystems.³⁶ Among startup founders in nine ecosystems surveyed by Startup Genome, a minority report high growth ambitions, that is, expressing the desire to develop a new product and to target a market of over \$30 billion. The Helsinki and Stockholm ecosystems host the most ambitious entrepreneurs: almost 40 and 25 per cent respectively report high growth ambitions. Entrepreneurs in the Paris and Malta ecosystems are the least ambitious: less than 10 per cent claim to have high growth ambitions. The percentage of entrepreneurs with high growth ambitions in the other surveyed ecosystems – London, Amsterdam, Frankfurt, Berlin and Barcelona – ranges from 15 to 20 per cent.

Not only are growth ambitions often culturally embedded, but they are also relatively slow to change over time. A 2012 study of SME leaders in the UK showed that 22 per cent reported a substantive ambition to grow.³⁷ In a follow-up study of the same leaders in 2014, only 2.5 per cent had substantially changed their growth ambition.³⁸ **Importantly, growth ambitions can predict behaviour:** those leaders who reported high growth ambitions in 2012 were more likely to have engaged in growth activities two years later. Similar evidence comes from Sweden: a longitudinal study of small business owners showed that growth ambitions in terms of employment and sales are stable and predict actual growth.³⁹ From a policy perspective, it is, therefore, crucial to consider entrepreneurs' growth ambitions and understand what may drive such ambitions.

Part of the answer lies in looking at different mindsets/attitudes to growth. Entrepreneurs with a negative attitude towards growth might, for example, be reluctant to grow their business, even to the point where they deliberately pass on opportunities for growth. These attitudes are driven by deeply rooted beliefs – sometimes misconceptions – about the process or outcomes of growing one's business.³⁹ Based on focus groups with entrepreneurs, a report by the UK government distilled ten myths about growth, including 'I need finance to grow, but banks won't lend and there are no alternatives' and 'there is no point in networking or seeking external advice'.³⁷ According to that report, many entrepreneurs seem to resist change and exaggerate the obstacles to growth to rationalise their conservative behaviour. The report therefore concludes that **some entrepreneurs may require a change in mindset before growth can occur.** Especially for entrepreneurs who are raising external finance, it can be crucial to portray a growth mindset as this is likely to appeal to investors.

3.2 Features of an entrepreneurial growth mindset

The term mindset captures 'a range of thinking processes, attitudes, beliefs, values and behaviors that determine why and how people make decisions'.⁴⁰ Here we use the term 'growth mindset' specifically to talk about the mindset features shared by growth entrepreneurs. This conceptualisation differs from the growth mindset popularised by Carol Dweck to denote the belief that intellectual abilities are not fixed.⁴¹

Unlike personal traits, mindsets can be trained and therefore have been of interest to policymakers seeking to encourage more entrepreneurs to grow their business. However, for policy interventions to be effective, we firstly need to understand the features that shape an entrepreneurial growth mindset. Since a mindset is hard to capture directly, these features act as measurable markers.

Regrettably, there are not many international studies of founders' mindsets. One of the few that captures metrics of founders' mindsets and links them to their growth ambitions was conducted by Startup Genome.³⁶ This included questions about whether an entrepreneur has a preference for 'big picture' thinking ('breadth'), concrete thinking ('depth'), planning and organising ('structure'), and is inclined to start new things ('initiation'). It showed that entrepreneurs with high growth ambition have a preference for breadth, while those with low ambition prefer depth. The research also found a link with startup success: the founders who preferred 'big picture' thinking were more successful than those who preferred concrete thinking. Finally, mindsets influenced whether a startup received funding: founders with bigger picture thinking and an 'initiation mindset', i.e. a tendency to start new things and turn ideas into action, were more likely to have raised external funds. This leads to the conclusion that it takes a certain mindset to grow and seek external finance, although the very act of seeking growth and finance can also shape a founder's mindset.

Startup Genome analysed the number of founders in various European ecosystems with a 'business builder mindset', i.e. those who have a mindset to grow a business successfully over a long time. These entrepreneurs closely match the profile of successful entrepreneurs alongside the various cognitive dimensions tested (e.g. initiation, breadth). Across European ecosystems, **between 29 per cent (Paris) and 46 per cent (London) of founders exhibit such a growth mindset** (Figure 4).

Interestingly, London is the best performing ecosystem when it comes to the growth mindset of startup founders compared to other European ecosystems. However, when it comes to entrepreneurs' actual growth expectations, the United Kingdom is only average compared to other countries. This may suggest there are larger variations within countries than across countries – and hence also that policymakers should be wary of assuming that one ecosystem is representative of another within the same country. This may also reflect the unique role of capital cities as attractors of mobile talent and other resources, and often their ironic position as outliers within, rather than representatives of, the country in which they are situated.

European entrepreneurs with business builder mindset

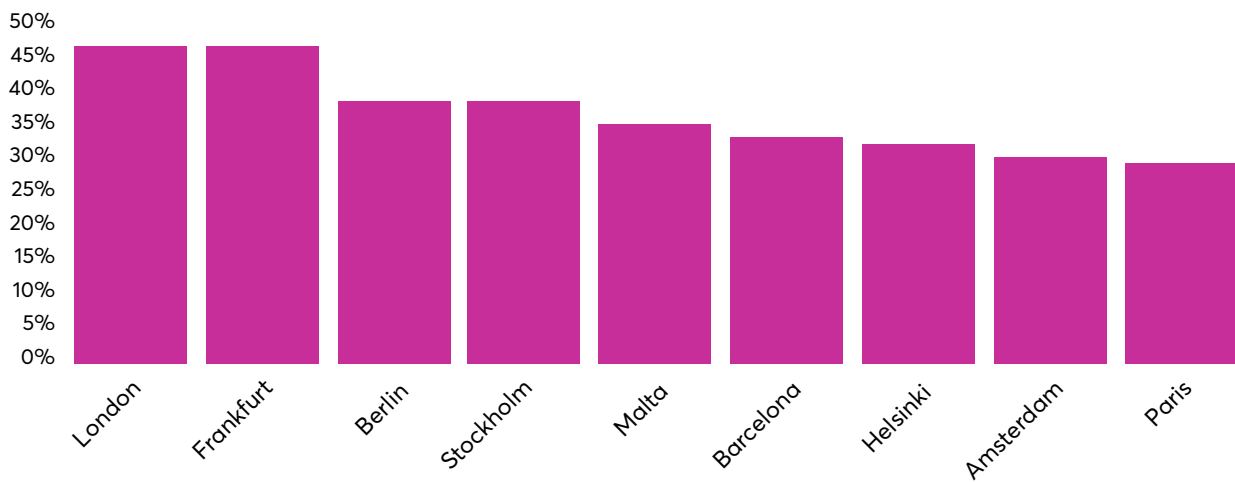


Figure 4: The percentage of founders in European startup ecosystems with business builder mindset. Source: own creation based on Startup Genome 2018.

Other research uses psychometric measures to identify mindset features that are likely to contribute to entrepreneurial success and growth. These include the tendency to spot new opportunities and be proactive, and having a strong business vision, market expertise and drive for innovation, sales and growth.^{40, 42} The interviews we conducted with scaling founders hint at some other mindset features that growth-oriented entrepreneurs may have in common: **impact-orientation, innovativeness, dominance and value creation** (Figure 5).

Many scaling founders view growth as a route to maximise impact: they want to expand the reach of their business and transform as many lives as possible. As one said: *"Building something that has an impact on so many people around the world is super motivating"* (Brainly).

Scaling entrepreneurs also seek growth to innovate. Specifically, they aim to change or disrupt an outdated industry and realise new opportunities in the market: *"My ideal is that my company does well, car dealerships are on their last legs, and we'll be the dominant player"*, one said, strongly voicing a desire to bring innovation to an outdated industry: *"The industry has to change, even if we're not the sole player, or even the winner, it has to change."* (Carcela).

In addition, many entrepreneurs voice a desire to become the dominant player in their field: *"I want to be the leader of the most successful company in the market. I know it won't be easy, but I want to leave a legacy, so I'm doing small steps to achieve this over the long term"* (Bankera). These entrepreneurs often seek a first-mover advantage: they wanted to grow fast to outcompete potential rivals in (inter)national markets.

Finally, entrepreneurs also seek to create value: they enjoy the process of creating and growing a business, particularly those who wanted to repeat previous startup success. They enjoy solving problems and in doing so, creating value for various stakeholders. In their eyes, the value they create goes beyond financial gains: *"I want to build something that makes a difference and solves a real problem and has a real impact in the world. The business needs to make money to survive (...), but money is a side effect of it."* (Unbabel).

Entrepreneurs' growth mindset

Growth mindset features

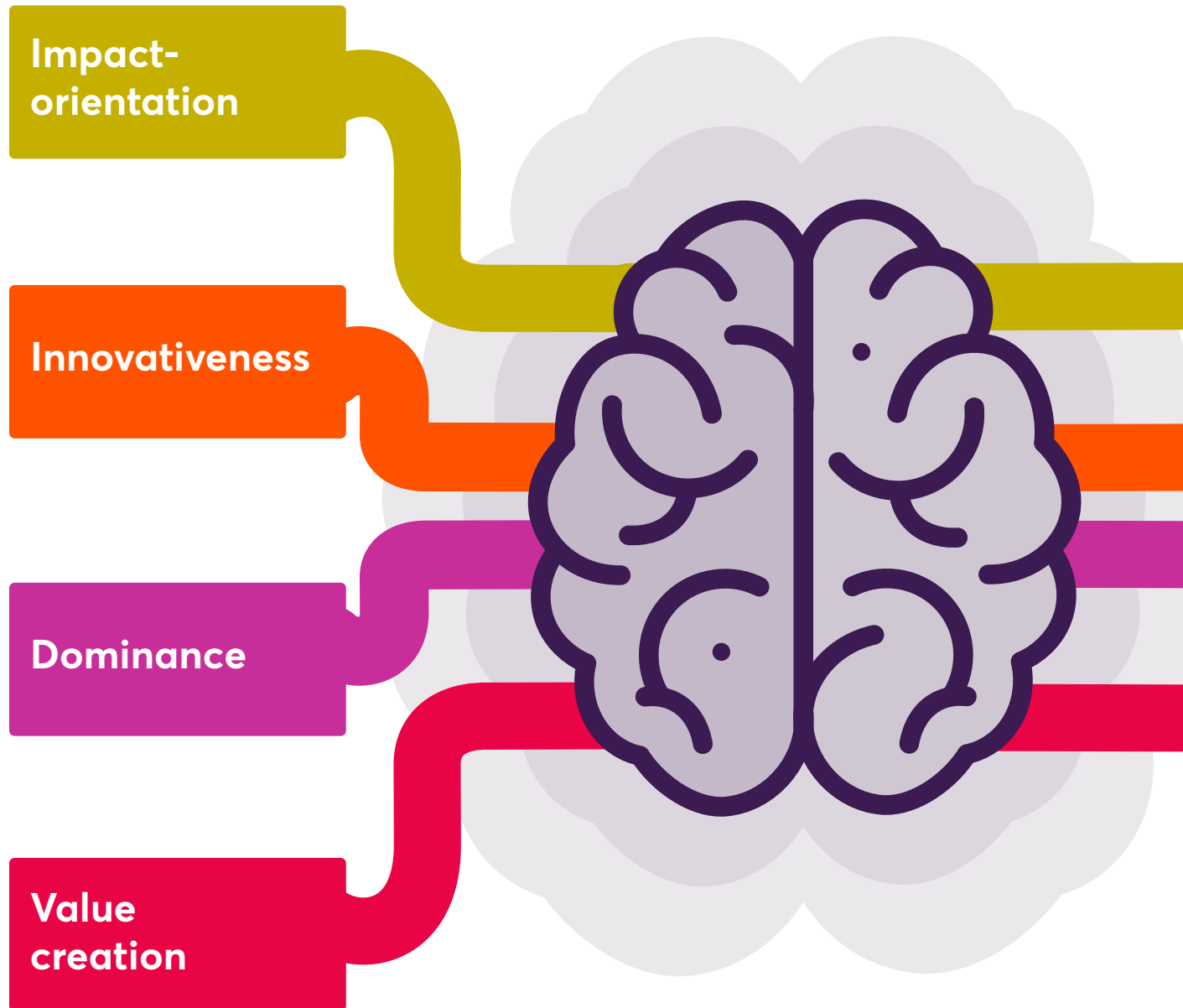


Figure 5: Growth mindset features. Quotes from interviews with scaling founders across Europe.

Quotes from interviews with scaling founders across Europe

"Hundreds of thousands of people say we've helped them (...) I'm going to touch millions of lives. **Scaling impact through my company is exciting.**"

Ada Health

"Early on we said: we have to scale the whole business. (...) We want to bring our systems on many satellites, aircrafts or ground stations to really **make a difference to society.**"

Mynaric

"There is **so much room to innovate** in the construction industry. The world has so much to gain by doing so."

Cloudalize

"We're really **changing the industry**, and some of the old guard (...) are now adopting best practices from our playbook."

Eyeo

"We knew it would be a crowded space if we didn't go fast and big which is why we invested massively to create big brands (...) so **the competition didn't get a look in.**"

CornerJob

"Our goal is to **create a standard in music.** (...) If you're into music and if you want to discover the world of music, then Viberate is the place to be."

Viberate

"We want to **build something very big, that lasts** and changes the way people approach work and change jobs. That's the ambition."

CornerJob

"I can focus on **building new things** but also help many companies to raise funding and help investors to find interesting new opportunities that they couldn't find before."

Invesdor

3.3 Determinants of growth ability

To understand entrepreneurs' demand for growth, we need to consider not only their motivations (see Chapters 3 and 4) but also their ability. We look at two determinants of entrepreneurs' ability to grow: the scalability of their business model and their ability (and willingness) to change roles and implement business practices.

3.3.1 Scalable business model

Founders who are motivated to grow will need a scalable business model to realise their growth potential. This is especially important when trying to raise external finance: investors often evaluate the scalability of the business model when making investment decisions. Investors look for signals for growth potential, some types of investors (e.g. venture capitalists) more heavily than others (e.g. informal investors).

Business models can signal – and enable – growth potential in various ways. These signals can stem from entrepreneurs' decisions regarding the startup's go-to-market strategy, revenue streams and/or product/service offerings. The literature suggests that many European entrepreneurs are able to develop scalable business models: they often have a **global go-to-market strategy**, rely on **subscription-based revenue streams** to help them scale and offer **innovative products and services**.

Although these business model features may enable the scalability of the business, it should be noted that entrepreneurs may be at risk of scaling too fast in **absence of profitable business models** to achieve long-term, sustainable growth. Developing a sustainable business model for growth requires taking an **adaptable approach** by tweaking features based on feedback from investors, customers and other entrepreneurs. Below we elaborate on each of these features.

A global strategy

European startup founders tend to have a clear global focus when developing their products and going to market, both within and outside of the Eurozone. At least one in five European entrepreneurs who have a business that is less than three and a half years old are already operating on an international level, reporting that more than 25 per cent of their sales come from customers outside their home country.^{35, 43} Many European startups (88 per cent according to the ESM) are also planning for further internationalisation.⁴⁴

With the exception of founders in the Frankfurt ecosystem, **over half of the founders in the surveyed European ecosystems developed a product with the needs of a global market in mind** (between 56 and 70 per cent) (Figure 6). There is greater variety in the percentage of founders who immediately are targeting global markets or targeting the US or UK specifically. Around two thirds of founders in the Helsinki (66 per cent), Malta (62 per cent), and Berlin (59 per cent) ecosystems have a global outreach from the start. In contrast, around one third of founders in Stockholm (37 per cent), Barcelona (36 per cent) and Frankfurt (27 per cent) intend to go global at first. The propensity to take a global outlook is likely a product of various factors, including culture, language (with English clearly assisting entry into North America and elsewhere) and the size of one's home market (with some island economies clearly unable to support significant local growth).

European entrepreneurs with a go-global strategy

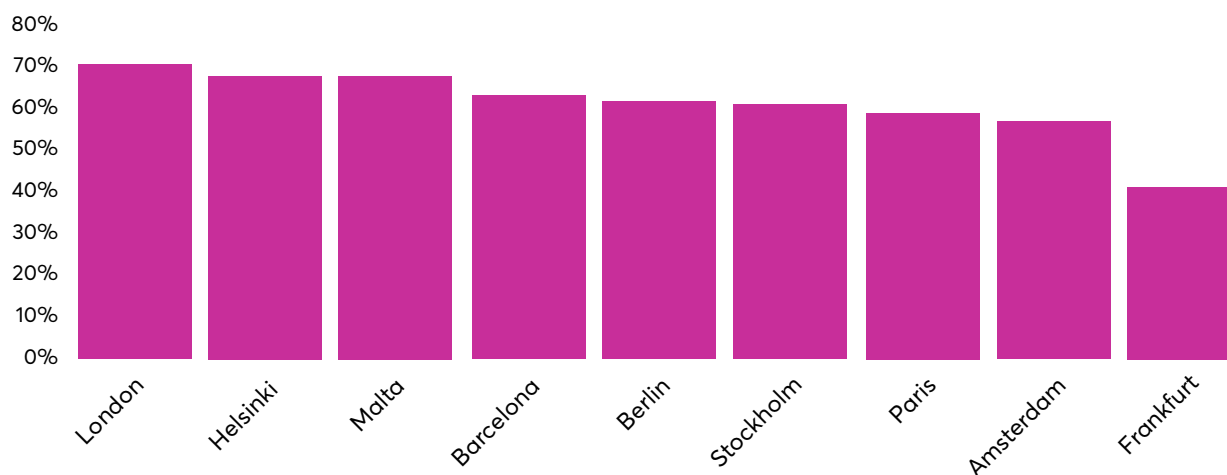


Figure 6: The percentage of founders in European startup ecosystems who developed a product with a global focus. Source: own creation based on Startup Genome 2018.

Sophisticated revenue streams

Besides a go-global strategy, high-growth firms tend to have sophisticated revenue streams to help them scale.⁴⁵ We do not know of any data on startups, but the 2018 European Scaleups Report finds that almost half (49 per cent) of European (tech) scaleups rely on a **subscription-based model**. This model – selling a product or service in return for monthly or yearly payments – is considered a way to create a stable stream of revenue.⁴⁶ The predictability of income **allows a business to scale and invest in growth**, and also reduces the perceived riskiness of the business – an attractive feature for external investors. European scaleups also like a **platform or marketplace** approach: facilitating sales or transactions in return for a fee or commission. Platforms like AirBnB have popularised this model, however for many entrepreneurs it can be a challenge to create a network effect and generate sufficient traffic or transactions to scale up. A **transactional model** – where a customer pays the business for providing a service or product, generally as a one-off – tends to be more difficult to scale, and is only used by eleven per cent of scaleups in Europe.

Innovative products or services

Growth-oriented business models are also likely to feature innovative products and services. Most European countries boast no shortage of innovative entrepreneurs: with the exception of Bulgaria and Poland, **at least one in five early-stage entrepreneurs report offering a product that is new to all or some customers and that is only offered by a few or no other businesses**. In Luxembourg, Cyprus, Austria, Ireland and Sweden, at least one in three are innovative early-stage entrepreneurs.³⁵

Profitable business models

Creating innovative, globally-oriented business models is important, but not an automatic recipe for success. European entrepreneurs often still struggle to create a profitable business, in some countries more than others.³⁵ Of the entrepreneurs who closed their business in 2017 in Bulgaria, Spain and Greece, around half reported that a lack of profitability was the cause (Figure 7). In contrast, in Luxembourg and the Netherlands, this was only the case for one in ten entrepreneurs. Importantly, **in most countries, establishing a profitable business seems a bigger challenge than accessing finance for those who closed their business**, indicating it is crucial to establish a profitable business model. However, the two are likely to be linked: some entrepreneurs that closed their business because they struggled to be profitable may not have considered seeking finance and therefore did not perceive it as a challenge.

Whilst lack of profitability may sometimes conceal various causes, such as poor product-market fit or bad management, it should also be noted that some startups emphasise growth over profits in the early stages, particularly those who rely on network effects. There are examples of businesses that have successfully grown without being profitable in the first few years. Often these are businesses that depend on network effects, which take time to build and scale. For example, UK challenger bank Monzo reported a £33.1 million loss in 2018, despite significantly growing its user base.⁴⁷ Similarly, Amazon was loss-making for years in order to scale and reach network effects (and is now profitable), whilst Twitter was founded in 2006 but did not make a profit until 2018.

Sustainable growth is vital. Recently attention has been brought to the occurrence of unicorns – privately held tech firms worth over \$1 billion – specifically in the US, which gain plenty of media (and investor) attention, but in fact lack profitable business models and are at risk of being overvalued, due to an ecosystem that incentivises growth at all costs.⁴⁸

European entrepreneurs that closed business because...

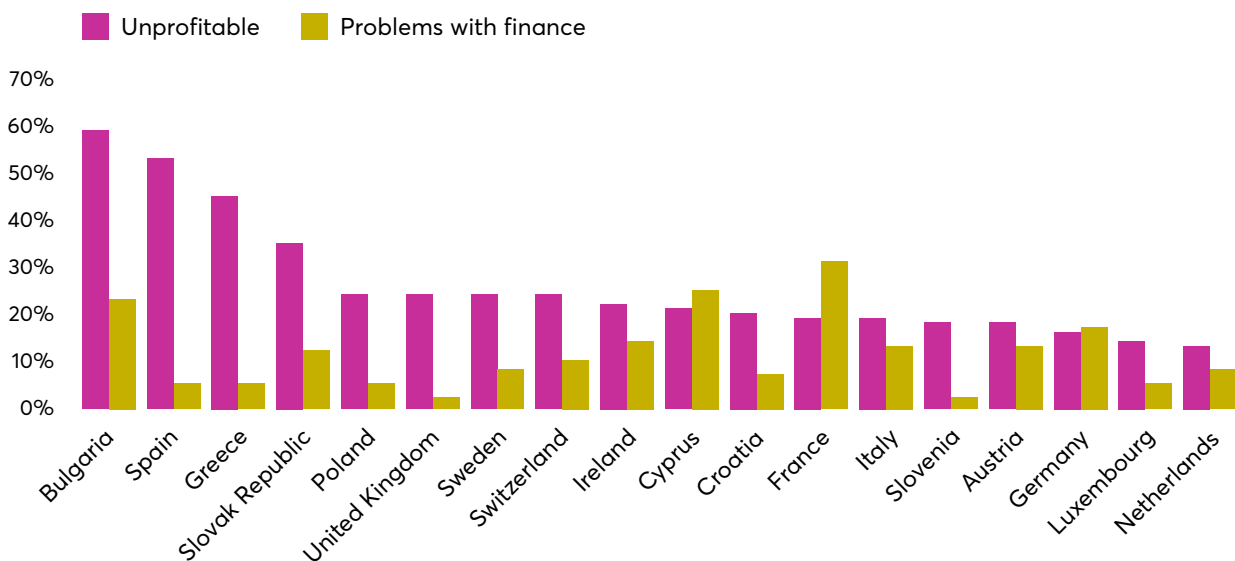


Figure 7: The percentage of entrepreneurs in Europe that closed their business because it was unprofitable versus because of problems with finance. Source: own creation based on GEM 2019.

Adaptable business models

Entrepreneurs need to take an experimental approach to business modeling, not only when they first start their business, but also as they update their business models over time. The initial decisions founders make regarding their business model will create imprinting effects that steer their growth journey and finance strategies.⁴⁹ At the same time, business models will change over time, as entrepreneurs develop their value propositions and the market evolves. The Boston Consulting Group estimates that the average business model lifespan is less than five years, down from 15 years as it has been in the past 50 years.⁵⁰

The interviews with successful scaleup founders showed how they carefully considered their business models and spent time experimenting and evaluating different versions to maximise their growth potential. As they were growing, entrepreneurs also listened to feedback from investors and/or customers to further tweak their business models. At the same time, entrepreneurs warned not to get side-tracked by each new opportunity that came up, but to remain focused on delivering their core value proposition. Developing a business model for growth therefore requires a careful balancing act.

3.3.2 Readiness to change roles

Managing a growing business is a demanding endeavour that often requires a change of roles within the business. The visionary founder that successfully set up a new business might not be the right person to lead the business.

A survey among European startup founders, carried out by ESM, shows that a large majority enjoy doing things in their own original way and view coming up with new ideas and being creative as important to them (90 per cent).⁵¹ This is a key attribute when starting a business, but a potential barrier in the transition to a leadership role. Some entrepreneurs, however, have no desire to change their role and prefer to remain focused on working in rather than on the business: many startup founders do not aspire to be leaders.⁵² When the growth process does demand a transition to a leadership role, this can create challenges and conflicts. Of the startup founders, 73 per cent consider themselves a participative leader who seeks advice from staff, shares critical information with them, and gives them a high degree of freedom.⁵³ **The remaining 27 per cent can be considered less participative leaders who may struggle to change roles as the business grows.**

Scaling up a business also requires other strengths and business practices, ranging from commercial, project management, financial, strategic to managerial skills.⁵⁴ This can be an important determinant of a firm's survival chances and growth, but many entrepreneurs struggle to implement such skills and practices.^{13, 55, 56} Data from Startup Genome suggests that **founders in most European ecosystems score below average when it comes to their practical and theoretical know-how of startup methodologies**, compared to other global ecosystems (Figure 8). To assess know-how, Startup Genome surveyed founders' theoretical knowledge of key startup methodologies such as Steve Blank's Customer Development and Eric Ries' Lean Startup, but also measured whether founders actually implement these methodologies in practice. While these indices are likely to be an incomplete reflection of startups' business skills, they offer some interesting comparative insights across ecosystems. In terms of practical know-how, only the Malta and Amsterdam ecosystems score above average, whereas only Barcelona and Stockholm perform better than average in terms of theoretical know-how.

European entrepreneurs' knowledge of startup methodologies

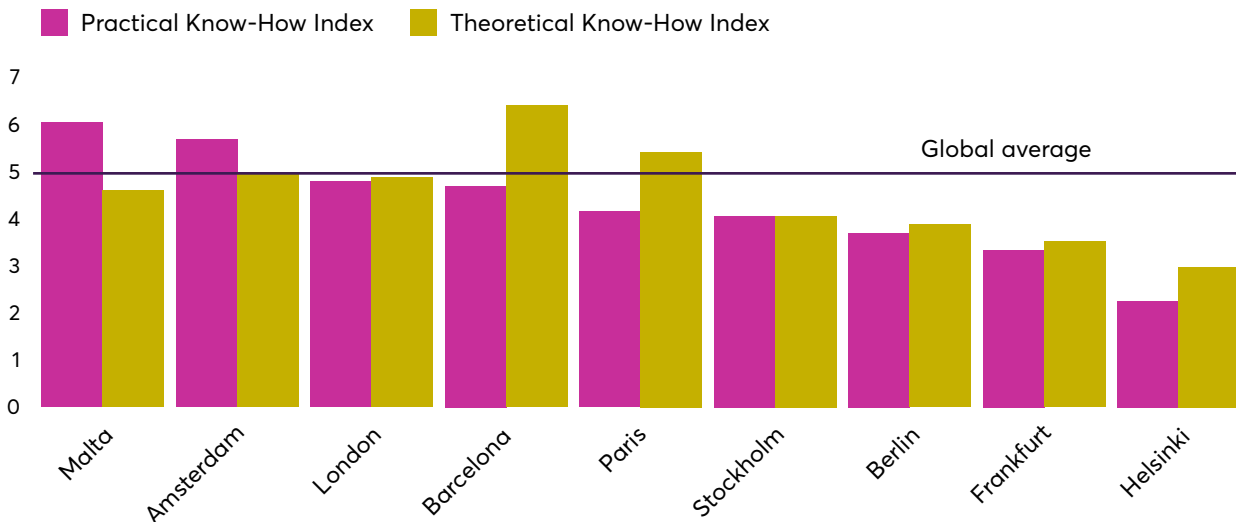


Figure 8: Practical and theoretical know-how index of founders in European startup ecosystems. A score of five represents the average across global ecosystems and each two points is one standard deviation above or below the mean. Source: own creation based on Startup Genome 2018.

3.4 Growth triggers

Even if entrepreneurs are motivated and able to grow, their actual growth is not always an outcome of a clear strategic plan. Instead, growth often occurs in an emergent way, with entrepreneurs responding to situations as they come along. Indeed, a survey among European startups shows that around half develop their business with a clear vision in mind (53 per cent).⁵⁷ The remaining 47 per cent are less deliberate in developing their business, reporting to build it step-by-step based on available resources, often not knowing what it would look like in the end.

So what triggers entrepreneurs to grow? The interviews and roundtable discussions we conducted shed light on some growth triggers that entrepreneurs experience. These can be positive, such as increased customer demand, or negative, such as financial pressures. We identified five categories of triggers: personal, business, social, financial and environmental triggers (Figure 9).

Growth triggers

 <p>Personal</p>	<ul style="list-style-type: none"> ● Pursuing a personal interest ● Realising lack of suitable help ● Wanting a better use of time ● Life events, e.g. spouse who changes jobs 	<p>"I'm intrigued by the role we play in sustainable fishing, which is something that I care a lot about personally now. We didn't think of this at the beginning, but now we work with environmental organisations on endangered species."</p> <p>Fishbrain</p>
 <p>Business</p>	<ul style="list-style-type: none"> ● Increased customer demand ● Being outcompeted ● Getting business premises or moving ● First major sale, client or job ● Buying major asset ● Doing business overseas ● Failed product launch 	<p>"There was no masterplan for expanding our product. Customers requested it and if there was enough volume then we would do it."</p> <p>Unbabel</p> <p>"A lot of competitors with no clients and no product were raising huge amounts of money so for us it was a defensive act to do an ICO."</p> <p>Bankera</p>
 <p>Social</p>	<ul style="list-style-type: none"> ● Participating in competitions ● Chance meeting with investors or business partners ● Attending matchmaking events ● Change in co-founders ● Losing a business partner ● Getting advisors ● Speaking with other entrepreneurs 	<p>"Our participation in the Munich Business Plan Competition helped us (...) start this process of getting investors."</p> <p>Viberate</p> <p>"One investor, I met at a diabetes conference in the US. And really by chance, it was totally just pure luck that I found them."</p> <p>mySugr</p>
 <p>Financial</p>	<ul style="list-style-type: none"> ● Financial pressures ● Low cost of lending ● Obtaining investment 	<p>"When our money was depleted we wanted to continue, so we had to raise external capital."</p> <p>Cloudalize</p>
 <p>Environmental</p>	<ul style="list-style-type: none"> ● Technology breakthroughs ● Economic shifts ● Regulatory changes ● Change in customer trends ● Business incident (e.g. theft, injury, damage to property) 	<p>"The market was ripe for disruption. (...) It's a century old model. Not many industries out there are so open to disruption."</p> <p>Carcela</p> <p>"Healthtech is such a dynamic space, because of all these connected devices, (...) we are able to add new features and services permanently to the app."</p> <p>mySugr</p>

Figure 9: Growth triggers that can spur growth episodes. Quotes from interviews with scaling founders across Europe.

Triggers can have a positive effect on growth and spur growth episodes if they boost an entrepreneur's growth motivation and/or ability, for example, when they are triggered by speaking with other entrepreneurs or a change in co-founders. However, the effect of triggers can also be negative and result in erratic growth or even rapid decline. For example, when growth is spurred by increased customer demand but not accompanied by a willingness to adapt business practices, entrepreneurs may end up not (fully) exploiting the growth opportunity or risk scaling prematurely.

The realisation that the growth process is time-sensitive, sporadic and influenced by triggers holds implications for policy on where and when to direct support (see Chapter 6). Understanding growth triggers is important to better target policy intervention to those firms that are likely to experience a growth episode.⁴⁵ For triggers to have a positive effect on growth, we suggest they need to be accompanied by a change in growth mindset or ability and support where necessary. Indeed, after these trigger points, support in the form of leadership development or financial advice is likely to have a direct impact on whether entrepreneurs are able to capitalise on the growth opportunity.⁵⁸

4

What motivates European entrepreneurs to seek finance?

Once entrepreneurs are triggered to grow and have the mindset and ability to scale, external finance is a key factor in realising that growth. External finance is any type of finance that comes from outside the business, and is typically grouped into three categories: grants, equity and debt (for more information about the distinction between the three, please refer to Nesta's *Paths to Scale* report²⁰).

We particularly focus on the following types of external finance: crowdfunding, angel investment, ICO, venture capital, IPO, corporate acquisitions and private placements (for a detailed comparison, see Chapter 8).

4.1 Link between external finance and growth

The positive impact of external finance on the growth of businesses is well-documented.^{27, 28, 29} The European Scaleups Report shows scaleups record a 28 per cent increase in job creation one year after receiving external funding, up to a 37 per cent increase after two years.⁴⁶ There are multiple possible explanations for this link: businesses that obtain external finance may be in a better position to grow to begin with; finance may help businesses grow that otherwise would not be able to; or businesses that are already growing may be more likely to obtain finance. Businesses that grow for extended periods of time are in turn more likely to survive, further underscoring the need for external finance to drive growth.^{59, 60}

In contrast, **an overreliance on internal and informal finance can reduce a business' growth prospects.**⁶¹ For example, relying on funds from family and friends can reduce risk-taking and, therefore, can create lock-in effects by keeping the business small. It therefore is crucial for entrepreneurs to access the most suitable types of finance to support the growth of their business.

Still, various European data sources repeatedly indicate that **the use of external finance sources lags behind that of internal and informal sources: most entrepreneurs rely on internal finance.**

- Data collected by the Global Entrepreneurship Monitor shows that up to 70 per cent of European entrepreneurs use personal funds.⁶²
- Research by the European Investment Bank suggests that 62 per cent of European SMEs' investments are financed through internal sources.⁶³
- According to a survey by the European Startup Monitor, 78 per cent of startup founders use their personal savings to finance their business.⁴⁴
- Research by the ScaleUp Institute shows that scaleups are more likely to rely on external finance (74 per cent of UK scaleups). However, still around one in four scaleups rely on internal finance sources only. At the same time, 44 per cent report they do not have the right funding in place to fulfil their current ambitions.¹¹

Next to personal savings, funds from family, friends and colleagues are a key source of finance for European entrepreneurs. The GEM finds that around 30 per cent of early-stage entrepreneurs in Europe rely on family, seven per cent rely on friends and another seven per cent rely on colleagues to fund their business. European entrepreneurs on average receive \$12,583 from such informal investments.⁶² Similarly, the European Startup Monitor reports that in the European startup population, 30 per cent of founders turn to family and friends.⁴⁴

Entrepreneurs who do seek external finance mostly reach out to banks (28 per cent), government sources (ten per cent), private/venture capital (seven per cent) and crowdfunding (four per cent), according to data collected by GEM in 2015.⁶² Data collected from startups by ESM paints a slightly different picture: apart from internal and informal funding, entrepreneurs rely on business angels (29 per cent), venture capital (26 per cent), incubators/accelerators (21 per cent), government funding (20 per cent), crowdfunding/investing (18 per cent) and only a minority rely on bank loans (seven per cent).^{44, 64} Among European tech scaleups who seek external finance, the large majority (85 per cent) of external capital comes from venture capitalists and private investors, and only a small amount from IPOs (12 per cent) and ICOs (three per cent).⁶⁵

Given the positive link between external finance and growth, the use of such finance by European entrepreneurs should be further explored to understand what drives it. In the next section, we examine what may motivate entrepreneurs to seek external finance, looking at how they plan their financing strategies for growth and identify the hurdles they may face to seeking external finance.

4.2 Hurdles to seeking external finance

How do entrepreneurs plan their financing strategy for growth, if it is planned at all? And which hurdles do they face in the process? Attempts to explain the financing decisions draw on different theories.²⁴

- **Pecking order theory** suggests entrepreneurs tend to go for the most easily available sources of finance first. Only after these sources become insufficient (e.g. when capital expenditures become higher than profits) are they triggered to seek new, alternative types of finance that are (perceived to be) more difficult to obtain (more about such 'trigger events' in section 3.4).⁶⁶

- **Trade-off theory** argues that entrepreneurs look at benefits and risks; they balance the risk of high levels of debt with the tax benefits that debt can provide, and ultimately end up with a mix of debt and equity to finance their business.
- **Agency theory** points to the role of conflicting interests between entrepreneurs and financiers, and the mechanisms that can align those interests.⁶⁷ For example, it suggests that collateral can help align interests and therefore will increase the availability of external debt.

However, as Fraser et al. (2013) conclude, these theories explain little variance in financing decisions (between 10 and 30 per cent). Instead, they suggest to include the role of entrepreneurial cognition/perceptions to explain financing decisions. Specifically, they call for taking into account factors such as entrepreneurial preferences, control aversion and risk perceptions, as we do here.

4.2.1 Awareness of finance options

External finance comes in many different forms (see Chapter 8), but data suggests that entrepreneurs are often not aware of finance and support options that are available to them. Data from Startup Genome shows that **at best around half of founders in nine surveyed European ecosystems were aware of third-party financial support** (e.g. loans, insurance or grants; not personal sources such as savings, family, friends) when they started their business (Figure 10).³⁶ At worst, only around one in five founders were aware of such financial support at formation. This was the case in Berlin and London ecosystems.

European entrepreneurs aware of third-party financial support at formation

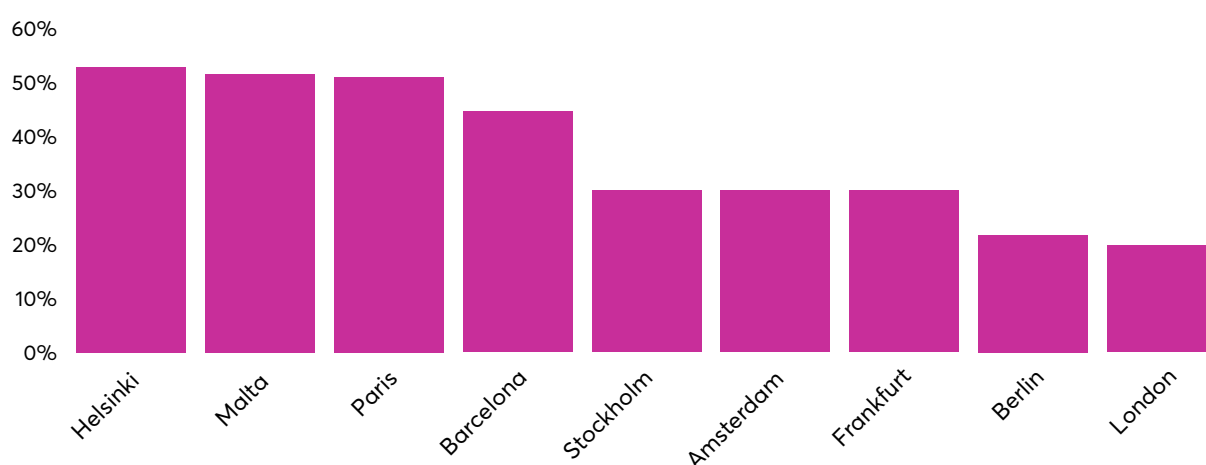


Figure 10: The percentage of founders in European startup ecosystems that were aware of third-party financial support at formation (e.g. loans, insurance or grants; not personal sources such as savings, family, friends). Source: own creation based on Startup Genome 2018.

Entrepreneurs who lack awareness of these options are less likely to pursue growth and seek external finance, or could end up accessing unsuitable types of finance. Low awareness of finance options could explain why only a small number of entrepreneurs turn to alternative forms of financing such as crowdfunding, venture debt, IPOs or ICOs. A survey among European startups suggests that less than 18 per cent rely on these types of finance.⁴⁴ Evidence from the UK suggests that 60 per cent of SMEs (excluding those who classify as 'permanent non-borrowers' and are unlikely to ever seek external finance) are not aware of any of the following finance sources: venture capital, equity crowdfunding, peer-to-peer lending, or business angels. Moreover, 66 per cent reported to not know anything about equity finance.⁶⁸ **Even among scaleups, awareness can be a constraint: 17 per cent of UK scaleup founders did not know anything about equity finance.**¹¹

There are many initiatives that offer support for growing businesses, but entrepreneurs in Europe often are not aware of them, are unsure of their relevance or feel there is limited applicability to their growth phase. Among European early-stage growth businesses around 70-80 per cent of entrepreneurs do not consider the support provided by various organisations helpful (see Figure 11, which supports the suggestion that the rise of accelerators is partly due to the inadequacies of the formalised education system).⁴⁴ Scaling businesses certainly do not think sufficient attention has been placed to their needs. For example, in the UK, four out of ten scaleup leaders do not perceive relevant support available to them, a matter the ScaleUp Institute is seeking to address in its work and assessment of what works as reflected in their 2018 Annual Review and forthcoming report that maps national and regional initiatives for scaling businesses.^{11, 108}

How European entrepreneurs rate support from...

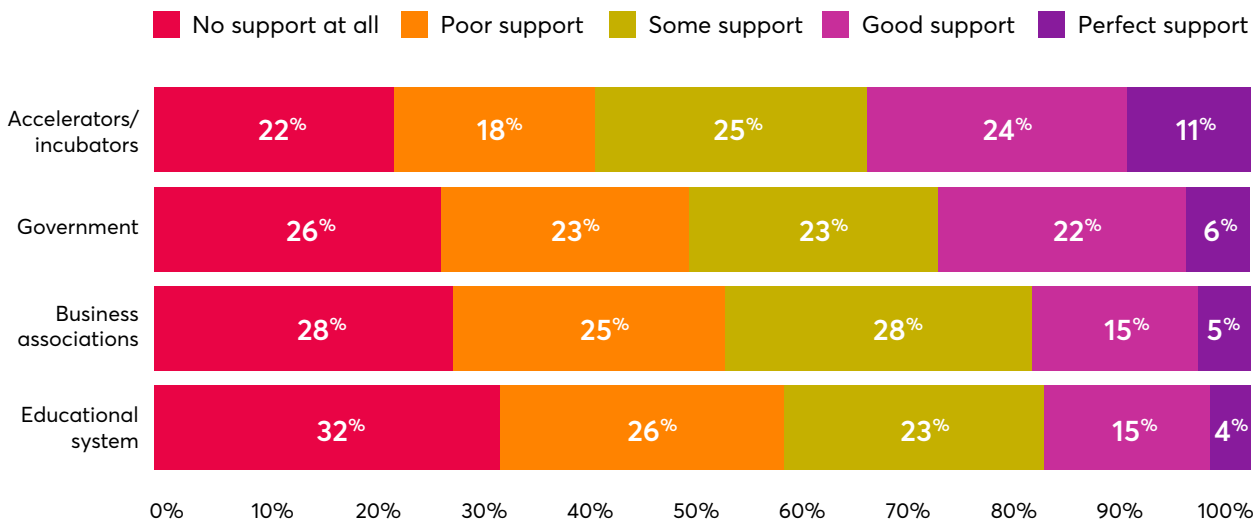


Figure 11: How European startups rate support from the government, business associations, educational system and accelerators/incubators. Source: own creation based on EU Startup Monitor 2018.

4.2.2 Preference for certain types of finance

Even when entrepreneurs are aware of various finance options, they may have a preference for certain types of finance.

Some entrepreneurs may choose to plan their growth strategy entirely based on what they can afford with internal finance. Or, they may have a preference for growing slowly instead of trying to access finance fast. The SME Finance Monitor suggests that this could be the case for over 70 per cent of UK SMEs.⁶⁸ In EU member states, 50 per cent of businesses that did not apply for external finance reported that there was no need for finance and they were happy to use internal finance only.⁶³ Only five per cent of businesses were finance constrained, meaning that they were dissatisfied with *“the amount of finance obtained, sought finance but did not receive it, or did not seek finance because they thought borrowing costs were too high or they would be turned down”*.⁶³ Among EU gazelles – enterprises up to five years old with average annualised growth greater than 20 per cent per annum, over a three-year period (a subset of high growth companies) – around **40 per cent did not apply for various types of external finance, because they had sufficient internal funds**. Moreover, only 11 per cent report that access to finance is the biggest problem their business is facing.⁶⁹

When it comes to choosing a type of external finance, entrepreneurs also vary in their preferences. **A large majority of European gazelles prefer debt over equity to realise their growth ambitions**: if they would seek external finance, 65 per cent would prefer a bank loan, 13 per cent would opt for other types of loans such as trade credit and only 12 per cent would prefer equity investment.⁶⁹

Entrepreneurs' preference for finance is likely influenced by how they perceive the accessibility. **Among those that were seeking external finance to realise their growth ambitions, only 40 per cent of gazelles reported no obstacles at all in accessing future finance** (Figure 12), compared to 47 per cent in the general population. As such, gazelles are less likely to perceive no obstacles. The most cited obstacles by gazelles relate to a lack of collateral or guarantees (15 per cent), the cost of accessing finance (14 per cent) and the amount of paperwork involved (nine per cent). Only four per cent view the availability of finance as an obstacle. Survey data collected from 37 European entrepreneurs during our roundtable discussions paints a similar picture, although a much smaller percentage report no obstacles at all (16 per cent). 22 per cent view a lack of collateral or guarantees as an obstacle and 18 per cent believe there is too much paperwork involved. Only eight per cent believe there is not enough finance available, which confirms the above findings. These perceived obstacles are likely to explain why entrepreneurs prefer to rely on internal finance first: not only is it actually harder to obtain external finance (due to market failure) but it is also perceived to be harder.²⁴

The obstacles European entrepreneurs perceive in accessing finance

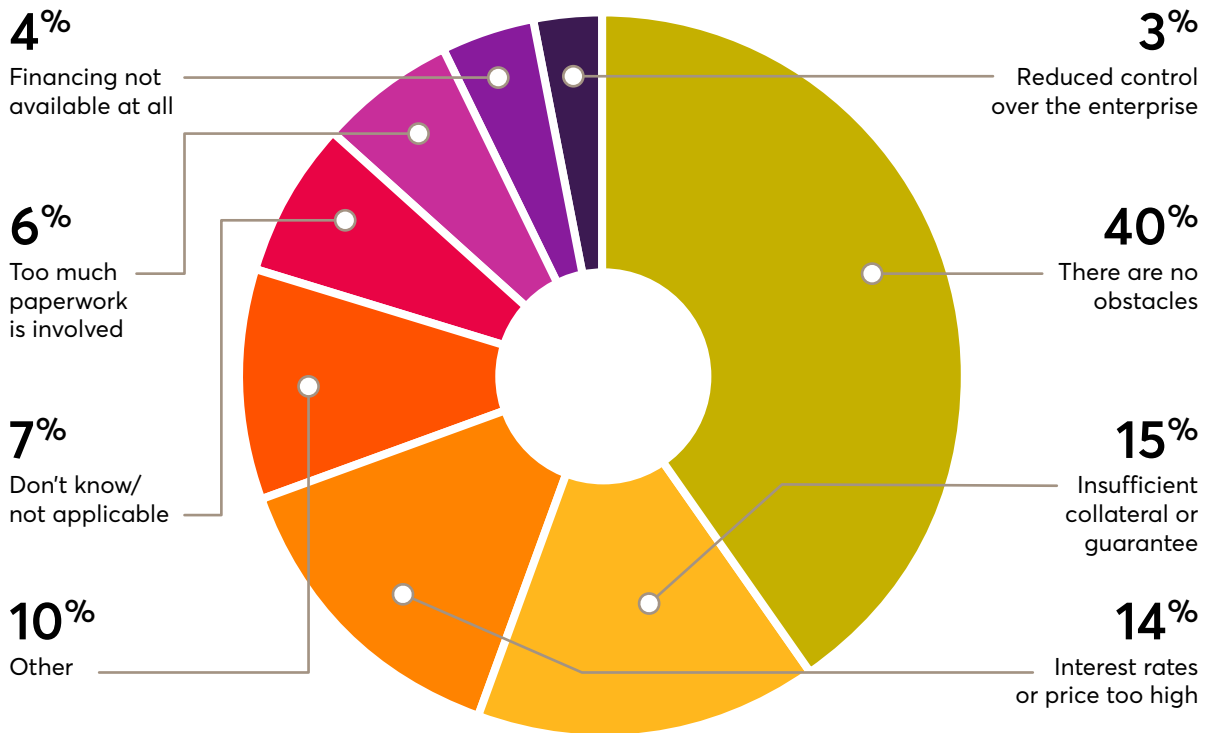


Figure 12: EU Gazelles' perceived obstacles to accessing finance. Source: own creation based on SAFE 2018.

4.2.3 Readiness to put in time and effort

As mentioned, entrepreneurs are typically both time- and resource-constrained and have limitations in the amount of information they are able to process. Unsurprisingly then, entrepreneurs spend most of their time working on the day-to-day operations of the business and have little time to reflect on their business, its growth strategy and the financing options available to them.²⁶ When entrepreneurs are pressured for time, they are likely to take mental shortcuts, which could lead to biased decision-making.⁷⁰ This can influence their financing decisions, for example when they choose a particular finance route, not because it is the best available option, but the easiest available one.

While we do not know of any Europe-wide data on startups, evidence from SMEs in the UK suggests that most entrepreneurs spend less than an hour considering their finance options (57 per cent).⁷¹ Even among those who are seeking finance for expanding their business,

62 per cent spend less than an hour exploring their options. Strikingly, only two per cent report spending more than 15 hours researching sources and providers of finance. About half of SMEs also spend less than an hour filling in the application forms (48 per cent). And, importantly, SMEs do not shop around for finance: 71 per cent of SMEs only approach one provider and typically go to their main bank without considering different offers.

This can potentially be a harmful approach: entrepreneurs could risk their growth prospects, and sometimes even their own personal wealth and assets. For example, they may choose to apply for a personal loan instead of a business loan because the former takes less time to prepare – even though organisations with business debt at the startup stage are more likely to survive and grow than those with personal loans or other forms of credit.⁷² One explanation is that lenders are likely to spend more time screening and monitoring business loans, which is not necessarily the case with personal loans.

Survey data we collected from 37 European entrepreneurs during our roundtables hints at why entrepreneurs may spend little time researching their finance options: around **one in four (24 per cent) reported that they did not know where to start.** Moreover, interviews revealed that the founders perceived a **strong trade-off between building the business versus spending time seeking investors.** Some entrepreneurs reported spending up to a year focusing on raising funds at the expense of further developing the business. For example, raising venture capital on average takes six to 12 months, and an IPO can take up to 18 months (see Chapter 8 for a detailed comparison).²⁰ And although a crowdfunding campaign can seem a relatively quick way to raise funds (the average campaign lasts one to two months), founders have to take into account additional preparation time of two to five months. As a result, it can take a long time between founding and raising external finance. According to the European Scaleup Report, the average time between founding a startup and raising a series A in Europe is four years. Startups which undergo an ICO are typically less than two years old, whilst those that undergo an IPO are 11 years old on average.⁴⁶

4.2.4 Confidence to seek finance

Another important factor when raising finance is confidence: are entrepreneurs confident in their ability to be successful? In psychological and cognitive research, such confidence is referred to as 'entrepreneurial self-efficacy': an entrepreneur's perceived ability to perform specific tasks related to entrepreneurship, such as growing a business or speaking to investors.⁷³ Entrepreneurs with high self-efficacy believe they will be successful in growing their business and accessing finance if they would want to. This self-efficacy helps entrepreneurs focus and persist with the tasks at hand and therefore is a strong predictor of growth.⁷⁴

On the other end, entrepreneurs with low self-efficacy are likely to lack confidence when talking to banks, venture capitalists or equity investors. While 67 per cent of European gazelles (in the EU28) report to be confident talking to banks, **only 36 per cent feel confident in talking to venture capitalists or equity investors** (Figure 13).⁶⁹ One potential explanation is that entrepreneurs may not feel confident achieving the return rates expected by these investors, which are substantially higher than for other types of investment. An alternative explanation is that most entrepreneurs already have some experience of personal banking, which makes banks much easier to approach.

European entrepreneurs who feel confident talking to...

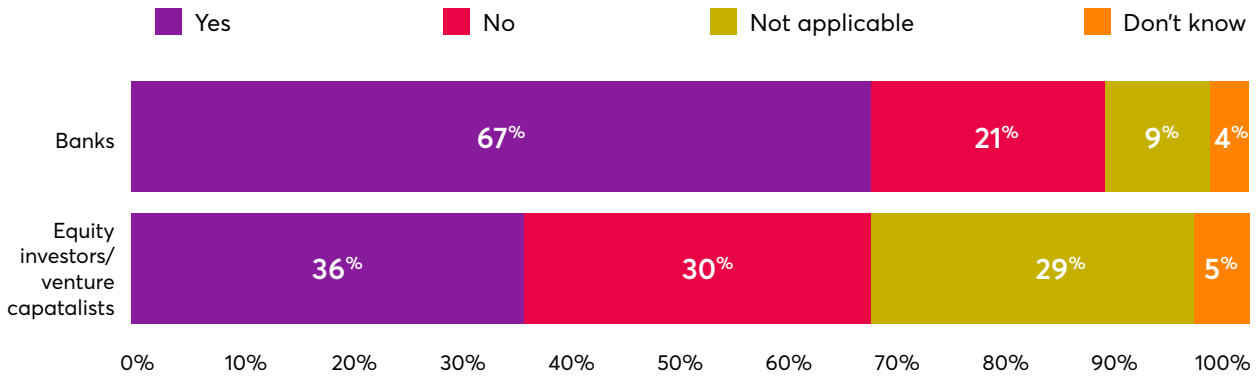


Figure 13: Percentage of EU Gazelles that feel confident talking to banks and equity investors/venture capitalists. Source: own creation based on SAFE 2018.

Entrepreneurs with low self-efficacy may also underestimate their ability to access different types of finance. As mentioned above, **only 40 per cent perceive no obstacles in accessing the finance they need, indicating that they feel confident in obtaining the desired financing.** The remaining 60 per cent who do perceive obstacles may lack the self-efficacy to overcome them, for example when it comes to filling out paperwork. They may also fear being rejected, which can discourage them from applying. Data from SAFE suggests that this could be the case for two to six per cent of EU gazelles. For example, five per cent of gazelles reported that they did not apply for bank loans because they worried about facing possible rejection.

4.2.5 Readiness to take risks and give up control

Starting a business is an inherently risky and uncertain process, and entrepreneurs are often thought of as especially tolerant to and comfortable with such risk and ambiguity.⁷⁵ But this is not always the case: in reality, there are big differences between entrepreneurs' preferences for risk and ambiguity, which can influence their motivation to grow and seek different types of finance. Indeed, a meta-analysis revealed a link between an entrepreneur's risk-taking propensity and growth intention, although the degree of causality is uncertain.⁷⁶

Among European startups, there seems to be a relatively high willingness to take risks: around half (57 per cent) self-report as risk seeking (Figure 14). In a survey conducted by the European Startup Monitor, entrepreneurs indicate to (completely) agree with the statement that they like to take risks and are always looking for adventures.⁴⁴ Only 12 per cent can be considered (highly) risk averse, (completely) disagreeing with the statement. The remaining 31 per cent are risk neutral. These risk preferences are likely to affect an entrepreneur's choice of financing routes, one being more risky than the other. Interestingly, they also offer a different perspective to the often-heard assumption that European entrepreneurs are not seeking enough risk.

Risk propensity of European entrepreneurs

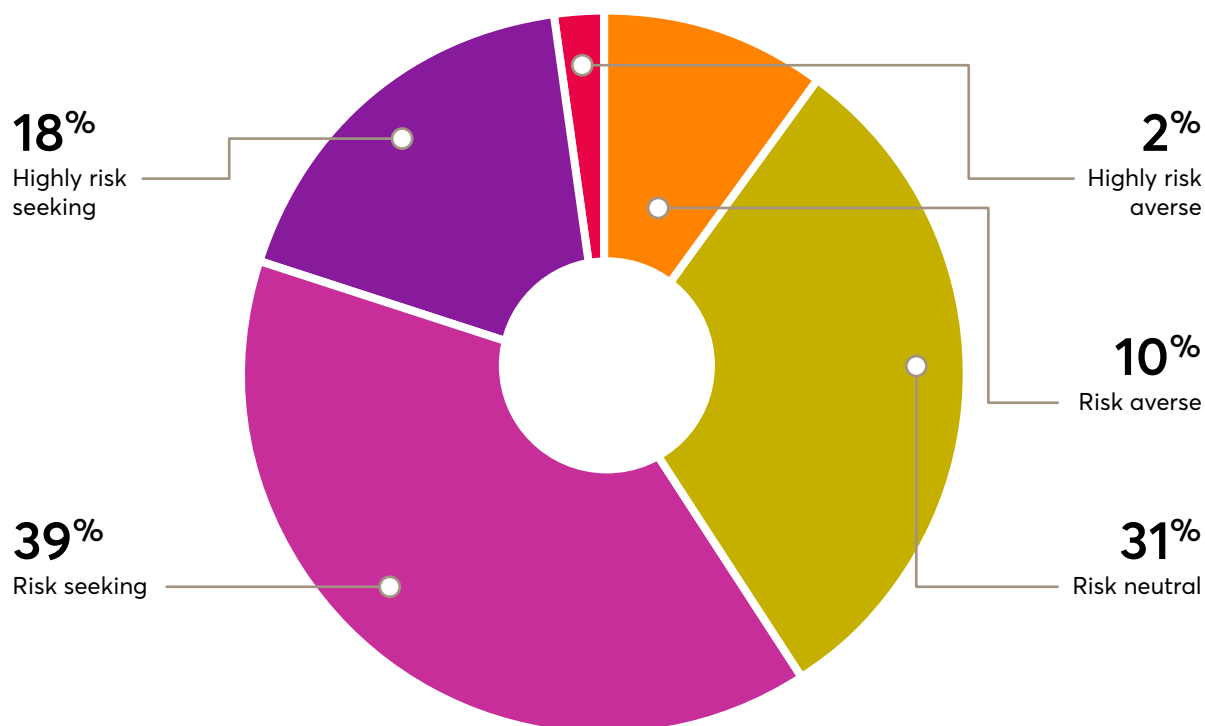


Figure 14: Risk propensity of European startups. Source: own creation based on EU Startup Monitor 2018.

Another oft-cited reason to explain entrepreneurs' low appetite for external finance is a fear of losing control.^{24, 67} Entrepreneurs perceive that by growing and seeking external finance, they will lose control over their business. For example, equity finance can lead to dilution of the ownership of the company, which some entrepreneurs want to avoid. Whilst some entrepreneurs have understandable reservations about giving away equity, others may have misconceptions about the process due to a lack of awareness or its perceived complexity. In the UK, 11 per cent of all SMEs reported to be reluctant to give up control when using equity finance.⁶⁸ Scaleups are more likely than SMEs to seek external finance with three quarters relying upon it to support their growth, but **14 per cent of all scaleups were reluctant to use equity finance for a perceived lack of control.**¹¹

More generally, some entrepreneurs worry that as the business grows, they will no longer have supervisory control over the day-to-day operations and lose track of the direction in which their company is going. In a study of 400 small business owners in Sweden, Davidsson found that 40 per cent of them are not willing to grow, one of the most important reasons being a desire to retain control.⁷⁷ **Among scaleups that do not use finance or wish to access more, 29 per cent fear a loss of control.**¹¹

5

The finance paths that European entrepreneurs take

Once entrepreneurs decide they want to raise external finance, they face another key decision, namely which type of finance to seek. Based on interviews and roundtables we conducted with European entrepreneurs, we explore motivations behind seeking different types of finance and the decision to go public versus remaining private and/or selling their business. We also try to understand why European companies choose to float on certain stock exchanges over others. Finally, we examine what scaleups' plans are for growth through various finance routes.

As mentioned, we focus on the following types of external finance: angel investment, crowdfunding, initial coin offerings, venture capital, corporate acquisitions, initial public offerings and private placements. Grants and bank loans are beyond the scope of this report. Chapter 8 offers a basic overview of these types of finance. For more practical guidance on each of these routes, please see Nesta's Paths to Scale report.²⁰

5.1 Motivations behind seeking various finance paths

During interviews and roundtables we conducted, European entrepreneurs opened up about their paths to scaling, their motivations behind seeking different types of finance and the decision to stay private, go public or sell their business. We found that entrepreneurs evaluate different finance routes based on two main criteria: the type of growth they pursue (organic versus aggressive) and the formality of the process to obtain the finance (high versus low).

Entrepreneurs who **bootstrap** do not seek external funding, but rely on savings and capital generated by the business. For some, bootstrapping is only an intermediate step during which they can prove that their business model works, ultimately to increase their ability of attracting investors at a later stage. Other entrepreneurs deliberately keep bootstrapping beyond the early stages, because they prefer to grow organically. They believe bootstrapping allows them to focus on long-term decisions without having to go through the process of seeking external finance and worrying about meeting investors' expectations. It needs to be noted that this strategy is only feasible for businesses that generate revenue early on.

Entrepreneurs who seek finance from **angel investors** also view it as a route that allows them to grow more organically or gradually compared to other routes. Angel investors usually invest at an early stage of a company's life cycle and tend to be more flexible compared to other private equity investors; they may be under less time pressure and more willing to hold investments for a longer time period. Entrepreneurs also appreciate the informal process of working with angel investors, often describing them as visionary investors who understand the entrepreneurial journey and believe in the team. They view their investors as an important source of non-financial support too, for example to help spread word-of-mouth about the business and offer advice and moral support.

Like bootstrapping and angel investors, entrepreneurs perceive **crowdfunding** as a less aggressive growth route. It allows them to raise funds, without having to meet the strong demands from institutional investors. Entrepreneurs also tend to opt for crowdfunding when finance is not available through other routes, for example, because the market they operate in is too specific and not attractive to other types of investors. Crowdfunding can be an efficient way to build a fan base and show there is a market for the product or service, which can help improve chances of securing future financing rounds. Although the process of raising finance through crowdfunding is less formal than other routes and can be completed in under two months, it is perceived as difficult – especially when it comes to generating the momentum required to fuel a successful campaign. Entrepreneurs believe the success of crowdfunding largely depends on initial investors who inspire others to join, thereby creating a growing community of investors.

Similar to crowdfunding, **Initial Coin Offerings** also require a strong community to be successful. Many entrepreneurs who opt for ICOs are already operating in the cryptocurrency ecosystem. Often, the ICO is a natural fit with their business model and growth strategy, for example when tokens are used to reward users on their platform. Many entrepreneurs who choose ICOs already have a clear understanding of the technology. Yet, in their eyes, the ICO process is difficult and risky: they need to make the token sale transparent and credible in absence of clear regulations. In addition, they need to be willing to absorb the volatility of the amount of funds they would raise.

Entrepreneurs who aim to pursue a more aggressive growth model tend to seek finance from **venture capitalists**. Entrepreneurs who seek venture capital expressed a strong desire for accelerating international expansion, achieving first-mover advantages and becoming a dominant player in the industry. These entrepreneurs realise that venture capitalists expect them to meet high growth goals that require them to professionalise their business. Despite the extensive process of securing venture capital, they are motivated to use this route to realise their growth ambitions, because it allows them to access more mature advice and engage in strategic partnerships with investors who often have deep expertise in their sector.

In some cases, entrepreneurs choose to sell their business to a larger corporate as part of their growth strategy, rather than as an exit strategy. Entrepreneurs opt for such **corporate acquisitions** because it provides them with opportunities for growth that they could not achieve in isolation. Some entrepreneurs realise that without a corporate partner, they would not be able to outperform competitors or achieve the systemic changes that are needed for their startup to succeed. As a result, they choose this route to piggyback on the corporate's global reach and expertise to speed up growth. However, many entrepreneurs view corporate acquisitions as a long and complicated process, even when the corporate is experienced in acquiring startups.

Entrepreneurs who choose the **Initial Public Offering** route also tend to pursue aggressive growth – they often need large amounts of capital that is not available through other routes. Some entrepreneurs consider the IPO route to meet expectations from investors and stakeholders, once they have obtained institutional investment and demonstrated growth. Others view it as a deliberate marketing instrument that increases the prestige and credibility of their business. Going public requires transparency, which in the eyes of entrepreneurs acts as a sign of confidence that can help them attract more customers to fuel growth. Entrepreneurs who are considering the IPO route view it as a highly regulated and expensive process that requires a significant shift in the company structure and how they approach investors. Indeed, a public listing adds additional responsibilities and reporting requirements. However, those who pursued the route report in hindsight that it was easier than expected. For some entrepreneurs, the process was facilitated by joining specific support programmes such as the ELITE programme by the London Stock Exchange to help them prepare and structure their business for an eventual IPO.

In contrast to the IPO route, where finance is sourced from public investors, entrepreneurs who use the **private placement** route source finance from a small group of selected investors through a private offering (sometimes called a non-public offering; it involves issuing securities to a small number of selected investors such as banks or pension funds, rather than a public issue on the open market). They select this route, not only because they have substantial funding needs to realise their growth ambitions, but also because they view the process as easier to manage compared to other routes that source finance from a large number of investors.

5.2 Where entrepreneurs seek finance

According to the 2018 European Scaleups Report, entrepreneurs in the UK were most active in attracting capital, raising \$7.1 billion in total, with 730 deals taking place. The UK was followed by Germany and France, where entrepreneurs raised around \$4 billion (278 deals) and \$3.8 billion (535 deals) respectively.⁷⁸ According to the Tech Scaleup Europe report, 85 per cent of total capital comes from venture capital and private investors; IPOs only account for 12 per cent. In terms of public listings, the UK was also the strongest performer: six out of 22 European tech IPOs took place in the UK (overall, LSE was the most active exchange in 2018, hosting 82 out of all 313 European listings).⁷⁹ Germany, the Netherlands, Denmark, France and Ireland each saw two tech IPOs.

An entrepreneur's decision to choose a specific location to raise finance and grow their business can be influenced by various factors. First, **access to talent** is a key consideration in order to get the right knowledge and experience to support the growth of their business. Specifically, the cost of hiring talent seems to influence their location decisions. For example, one entrepreneur noted how she decided to stay in Europe instead of moving to the US because the cost of hiring engineers and data scientists was lower.

Second, (perceived) **access to finance** influences where a startup pursues its growth strategy. The annual European Scaleup report reveals that Europe lags behind the US in this respect: while average funding per capita in the US in 2017 was more than €230, in Europe it was only €51.⁴⁶ The entrepreneurs we interviewed mirror this view: some noted how they decided to raise funding in the US, because in their eyes, European investors are less willing to take risks if the return on investment is not yet clear. Entrepreneurs also noted the size of the capital market in the US: in their view, more capital is available in the US and funding rounds are larger compared to Europe.

Third, entrepreneurs choose a location to improve their **access to markets**, looking at the greatest market potential or where they can have the first-mover advantage. Entrepreneurs with global ambitions might choose investors in specific locations who understand the local market and can facilitate their global expansion. Others might set up local offices close to investors to be able to fully tap into the investor's expertise and connections.

Fourth, **access to support mechanisms** can influence an entrepreneur's location choice. For example, some entrepreneurs opt for re-location to be able to participate in a specific accelerator or incubator programme.

In case of an IPO, an entrepreneur needs to decide not only in which country but also on which market to float. Generally speaking, **entrepreneurs consider financial and non-financial benefits of different stock markets**. Financial benefits can include listing costs and effects on valuation and liquidity, even though the extent to which this significantly differs by location has been questioned. In terms of non-financial benefits, entrepreneurs consider ease of access, regional proximity or local expertise.⁸⁰ Research also suggests that internal governance characteristics (e.g. founder-CEO, executive incentives and board independence) and external network characteristics (e.g. prestigious underwriters, degree of venture capitalist syndication, and board interlocks) are significant predictors of foreign capital market choice by foreign IPO firms.⁸¹ According to the 2018 European scaleups report, Euronext is the most popular platform to go public in Europe, followed by AIM (sub-market of the London Stock Exchange) and Nasdaq First North (division of the Nasdaq Nordic).

Entrepreneurs who seek to go public are further faced with the decision to float on the main market or an alternative market like AIM, with the latter offering more flexibility, less regulation and less strict listing requirements. Hence, it is often considered a suitable alternative for smaller, growing companies. Our conversations with European entrepreneurs confirmed the attractiveness of these alternative markets for startups and scaleups.

5.3 Finance fuels a range of growth plans

Entrepreneurs pursue finance to achieve various growth plans. According to SAFE, the most important plan for growth through external finance is to invest in property, plants and equipment (Figure 15).⁶⁹

European entrepreneurs' plans for growth through external finance

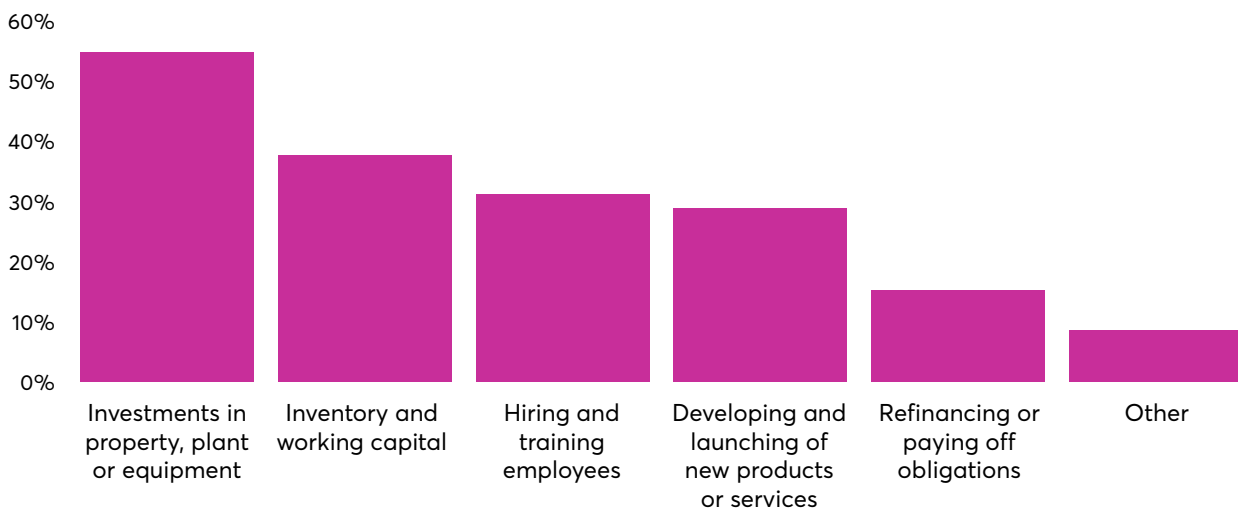


Figure 15: European gazelles' plans for growth through external finance. Source: own creation based on SAFE 2018.

The interviews and roundtables we conducted with European entrepreneurs offer some granular insights into these growth plans. We also found that entrepreneurs pursue these growth plans regardless of the finance route they take. What does vary across routes, is the extent of their growth plans. As mentioned, entrepreneurs choose some routes (e.g. IPO), because it allows them to pursue more aggressive growth compared to other routes (e.g. angel investment). Those who pursue aggressive growth routes have more ambitious growth plans, in terms of recruiting, building the business or accessing new markets. For example, they aim to recruit an executive team, acquire competing businesses or expand to international markets. We elaborate on these growth plans below.

Recruitment. Entrepreneurs use funding to hire highly skilled individuals and create teams with the right resources to work on improving the product or service offering. Depending on their growth stage, entrepreneurs raise finance to recruit experts in R&D, sales, finance and/or management.

Building the business. The finance entrepreneurs raise also goes to further improving product or service offerings. In the early stages, finance allowed some to focus on the business full time and create a minimal viable product. Later on, entrepreneurs invest in professionalising the company, for example by increasing the user-friendliness of their offerings, going into production or growing the company structure. Finance is also used to expand existing offerings, by developing new product or services and/or adapting products to global markets.

Acquisitions and partnerships. Some entrepreneurs use capital to acquire other companies. In particular, those who pursued aggressive growth strategies intended to acquire competitors to expand their market reach. To ensure further growth, entrepreneurs also seek partnerships with other companies to benefit from complementary resources.

Expand (inter)nationally. Raising external finance helps entrepreneurs who aspire to expand their business. Such expansion entails tapping into new national or international markets, for example by setting up new production sites or sales offices.

Attract bigger investors/prepare for exit. Entrepreneurs realise that a successful track record of raising finance will likely enhance their attractiveness for future investors. At the same time, having institutional investors on board means entrepreneurs will need to deliver an exit for investors. Most entrepreneurs do not have a clear exit strategy when they start raising finance, even though this can be important: in some cases, for example, a lot of venture capital investment can negatively influence a company's chances of a big exit. In the case of going public as an exit strategy, entrepreneurs may decide to raise pre-IPO financing.

6

Focus areas for policy intervention

This report started with a short introduction of the policy context of scaling in Europe. Most entrepreneurship policy emphasises the availability and investment of capital (the supply side). For reasons explored in this report, it is also worth looking further into the demand side: how can we better promote entrepreneurial mindsets and abilities so that more entrepreneurs feel motivated to pursue growth and seek finance?

We present a policy framework that specifically targets the demand side (Figure 16), consisting of two key elements:

1. **Three areas of policy intervention** to support entrepreneurs to overcome the key demand-side hurdles our research uncovered (see Chapter 2 for an overview), by targeting their motivation and ability to grow and seek finance. The policy areas are: nurturing entrepreneurial growth mindsets; improving awareness of and access to resources for growth, and creating spaces that facilitate risk-taking. For each area we propose specific actions, supported by best practices across Europe (section 6.1-6.3).
2. **Guiding principles** to develop and implement the proposed policies.
 - a. Following Nesta's view on innovation policy, we call for entrepreneurship policy that is smart, inclusive and fit for the future (section 6.4).
 - b. We stress the importance of developing targeted policies that fit the life stage of a business and differentiate scaleups and those with ambitions to scale or are on a scaling journey (section 6.5).

Many of the proposed policy interventions build on existing efforts to support startups in scaling.⁸² However, as said, we specifically target the demand side and emphasise those interventions that can help entrepreneurs overcome key demand-side hurdles to scaling. We acknowledge that these demand-side policies should interact with supply-side policies, for example those related to increasing access to finance and talent, as called for by the ScaleUp Institute or the ScaleUp Manifesto.^{11, 21} We therefore recommend that policymakers apply a holistic view and understand how different forces interact with each other to cultivate the ecosystem as a whole.⁸³

Policy framework to boost demand for growth and finance

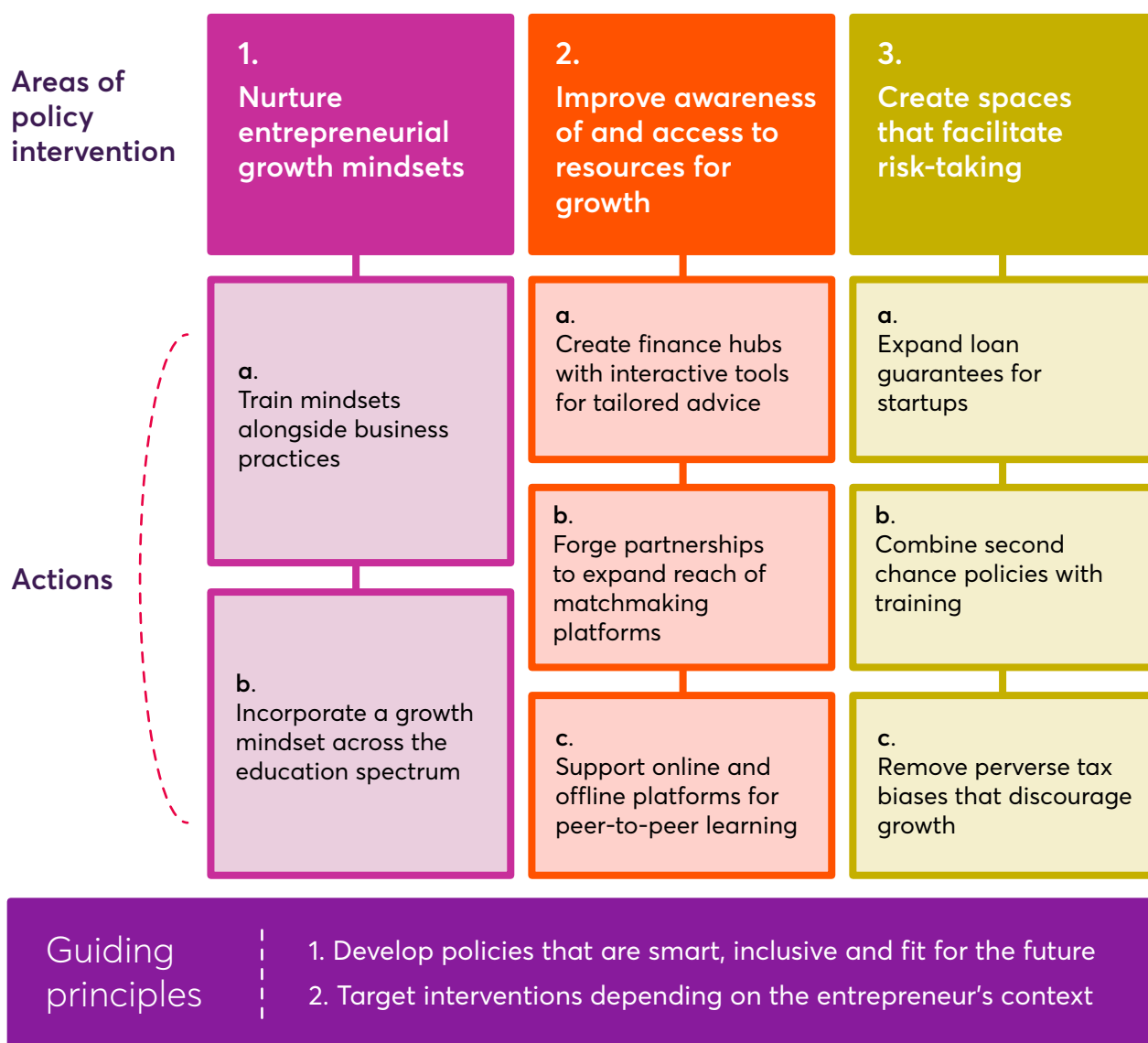


Figure 16: Policy framework to boost demand for growth and finance.

6.1 Nurture entrepreneurial growth mindsets

In Chapter 3 we saw that many entrepreneurs have low to moderate growth ambitions. Although not all entrepreneurs will or should grow (e.g. those who own lifestyle businesses), we found that low growth motivations could partly be driven by misconceptions about the growth process. We concluded that a mindset change is necessary among some entrepreneurs for growth to occur on a larger scale. A first focus area for policymakers is to nurture entrepreneurial growth mindsets, in order to:

- Offer targeted support to those entrepreneurs who have experienced a growth trigger, but may not yet have a mindset for growth. After such a trigger, support in the form of mindset training or financial advice is most likely to help entrepreneurs spur a growth episode (also see section 6.5.2).
- Stimulate an entrepreneurial culture that encourages growth, by incorporating growth mindsets in the development of education curricula.

The concept of a growth mindset builds on the idea that an entrepreneurial mindset exists, but the two mindset concepts are not interchangeable. While existing research increasingly looks at the mindset shared by entrepreneurs, the current evidence does not pay much attention to the mindset of growth-oriented entrepreneurs. As mentioned, our conceptualisation of an entrepreneurial growth mindset differs from the concept popularised by Carol Dweck to denote the belief that intellectual abilities can be developed and are not fixed.⁴¹

6.1.1 Train mindsets alongside business practices

There is no shortage of training programmes that are available for nascent and existing entrepreneurs. Although useful, such training often focuses on the development of business skills and practices rather than mindsets. However, both are important: without the right mindset, entrepreneurs are less likely to effectively adopt business skills and practices. **Mindset training can even be more effective than traditional business training**, as evidenced by a field experiment of small business owners in West Africa.⁸⁴ Among entrepreneurs who received mindset training, profits increased by 30 per cent in a two-year timespan, compared with only 11 per cent for those who received traditional training.⁸⁵ A similar experiment among Jamaican small business owners also found positive effects of mindset training on business outcomes, but only in the short term.⁸⁶

Although there is some evidence that mindset training can be effective, more research is required to replicate these findings across contexts. Moreover, current understanding of how training can contribute to creating a growth mindset specifically is still limited. The literature recommends some practices to deliver mindset training, such as creating a personalised learning environment and incorporating coaching and peer-to-peer mentoring.^{87, 88} However, to be able to offer effective training, we first need a better understanding of the features that shape an entrepreneurial growth mindset and how they differ from a 'generic' entrepreneurial mindset.

This report makes an effort to identify some growth mindset features based on interactions with European entrepreneurs (section 3.2), but further research efforts should be encouraged. Once these growth features are better understood, existing approaches to business and mindset training should be re-evaluated to assess the extent to which they reflect the growth dimension. Building on existing best practices, we recommend **piloting an evaluation programme** to measure the impact of training programmes on developing a growth mindset and business growth. The evaluation programme should validate (1) which features constitute a growth mindset and (2) which training programmes are effective in developing growth mindsets and improving entrepreneurial outcomes. In section 6.4.1 we elaborate on the promise of Randomised Control Trials (RCTs) to carry out such an evaluation programme.

6.1.2 Incorporate a growth mindset across the education spectrum

Although mindsets are dynamic and can evolve, this does not happen overnight. We recommend a more integral approach by incorporating entrepreneurial growth mindsets in education, as early as during primary education. The role of education systems in helping to develop an entrepreneurial mindset and skills has been long recognised and stimulated. For example, Entrepreneurship360 is a collaborative initiative between the OECD and the European Commission aimed at promoting an entrepreneurial mindset through education. The Scale Up Europe Manifesto calls for making entrepreneurship education a mainstream part of school curricula in secondary schools and universities and incentivising and celebrating academic entrepreneurship.²¹ We support this view, but also believe a focus on a growth mindset is missing. Following emerging work on exposure to innovation, we also think that there is value in exposure to enterprise and entrepreneurship as early as possible.¹¹⁰

A growth mindset has specific features that set it apart from a more 'generic' entrepreneurial mindset. **Entrepreneurship curricula should therefore not just try to encourage students to consider entrepreneurship as a career option, but equip them with the mindsets of growth entrepreneurs.** This may involve changing the content, format and learning environments of entrepreneurial education, and the actors that shape these. This ideally should cover the full education spectrum, from primary school to university. Childhood and adolescence are thought to be 'ideal' times to teach entrepreneurship education and shape mindsets.^{41, 89} Yet, a lot of existing programmes only focus on higher education, and there still is limited understanding about methods to improve entrepreneurial education at the pre-university level. We need a systematic and comprehensive approach, supported by best practices, to better understand and incorporate growth mindsets in all levels of entrepreneurial education.

The European Commission can take the lead in developing a systematic strategy for entrepreneurship education that instills a growth mindset. One approach could involve sharing best practices throughout Europe, similar to its earlier initiatives to foster entrepreneurial mindsets such as the Entrepreneurship360 initiative. The initiative reviewed 100 activities in entrepreneurial education aimed at promoting an entrepreneurial mindset and can be further built upon to identify and share best practices specific to growth.

To measure the impact of teaching growth mindsets in entrepreneurial education, we propose to expand measurement tools such as the European Entrepreneurship Competence Framework. The framework already captures key measures that may be linked to entrepreneurial tendencies, including individuals' general self-efficacy, motivation and perseverance, but can be expanded with specific features indicative of a growth mindset.⁹⁰

6.2 Improve awareness of and access to resources for growth

Despite the various resources available to help entrepreneurs, they often remain unaware of or struggle to access them. We found that 70 to 80 per cent of European entrepreneurs do not consider the support provided to them helpful. Existing resources are often too difficult or time-consuming to navigate and may lead to a cognitive overload, potentially causing entrepreneurs to disengage from the ecosystem and reducing their motivation to grow and seek finance.

Therefore, a second broad area of policy interventions focuses on improving awareness of and access to resources for growth, specifically related to finance options. Policymakers should work to offer easy-to-navigate, tailored information sources to help entrepreneurs overcome various demand-side hurdles. Specifically, the resources for growth we propose can spur demand for growth and finance, by:

- Increasing entrepreneurs' awareness of the most suitable financing and support available.
- Helping entrepreneurs adopt management practices as the business grows.
- Reducing information search cost.
- Increasing entrepreneurs' confidence to seek finance.
- Helping entrepreneurs understand the nature of the risks involved.

The initial focus should not be the creation of new resources, but on the consolidation, validation and communication of existing resources, as well as streamlining the process of finding and accessing finance.

6.2.1 Create finance hubs with interactive tools for tailored advice

Existing resources that help entrepreneurs to explore finance options often remain limited to listing different sources of capital. For example, the Startup Europe Club, the one-stop-shop for European startups, strictly lists EU funding opportunities available for SMEs and startups. Another European platform, Your Europe, offers more comprehensive search tools for financial opportunities by country. Entrepreneurs can narrow their search by type of finance (loan/guarantee or equity/venture capital), investment focus (e.g. ICT, growth stage, leasing), source of finance (e.g. EIB, EIF), company category (e.g. startup, micro, SME) and amount of finance (e.g. less than €25,000, more than €7.5 million).

Whilst these platforms offer a useful overview of finance sources, they are built on the premise that entrepreneurs already have a thorough understanding of what different finance sources entail and have an idea of which are most suitable to them. Our research shows that in reality this is often not the case. We therefore recommend **creating Finance Hubs that go beyond merely listing various finance sources, but offer interactive tools that provide tailored advice** to help entrepreneurs assess which finance sources are best suited for their needs and wants.

In Box 2, we offer guidance on what an effective Finance Hub looks like. Such a hub can build on existing efforts, for example by Nesta whose Paths to Scale report provides an offline guide for European entrepreneurs who seek finance.²⁰ Likewise, the British Business Bank (BBB) developed a useful online Finance Hub for UK entrepreneurs working with the private sector including the ScaleUp Institute and financiers. The hub complements the Business Finance Guide which has been published by the Institute of Chartered Accountants in England and Wales and the BBB since 2014.

While some of the proposed Finance Hub features in Box 2 are useful across Europe (e.g. information about and suitability of finance options), others need to be adapted on a country-by-country basis (e.g. search tool to find finance experts, implementation of finance strategy). Developers of Finance Hubs should therefore work closely with national and local authorities and support organisations to develop harmonised resources that can be further translated and tailored to each member state.

Box 2: What does an effective finance hub look like?

The hub should have multiple features. First, it should serve as **an interactive tool that helps entrepreneurs identify suitable finance options**. For example, in the Finance Hub of the BBB, entrepreneurs answer six questions about their sector, location, main reason for seeking finance, the amount of finance needed, the company's profit and growth profile, and the assets they have to secure finance. Based on these answers, the tool suggests the finance options that are right for that specific business, but also which options may not be suitable. This way, entrepreneurs get tailored advice about various finance options and what it takes to get investor-ready.

Second, the hub should support entrepreneurs to **find finance experts, by region, sector and finance type**. Expert advice about raising finance may be provided by corporate financiers, bankers, chartered accountants, university entrepreneurship/innovation centres, accelerators and by development banks and development agencies. It is recommended to involve these stakeholders as partners on the platform so that entrepreneurs experience a streamlined flow of information. The Dutch Financieringswijzer is a similar interactive tool to the Finance Hub of the

BBB, except the outcome is a referral to one of ten relevant partner organisations which can then help assess the entrepreneurs' finance needs in more detail. The hub can also direct entrepreneurs to dedicated training opportunities and local peer-to-peer networks, which can help them further craft their financing strategy.

Finally, the hub can act as a **centralised resource centre with case studies, success stories, checklists, guides and infographics, by finance type**. For example, the BBB Finance Hub currently lists guides for six finance types: angel investment, equity crowdfunding, expansion capital, grant, IPO and private equity. It also offers a five-stage checklist to help entrepreneurs go through the scaling process. *100 stories of growth*, published by the Intelligent Partnership, is another excellent resource that showcases growth entrepreneurs in the UK with the aim of raising awareness and inspiring other entrepreneurs to grow and seek finance.¹¹ These resources can be expanded in consultation with financial experts. Importantly, content should be jargon-free and easy to process and access. The latter can be achieved by creating a mobile app or developing a chatbot that can direct entrepreneurs to the content they need.

6.2.2 Forge partnerships to expand reach of matchmaking platforms

Matchmaking platforms can reduce the time and effort it takes for entrepreneurs to seek investors (and vice-versa). However, **existing platforms are often limited to the country level and lack a focus on growth finance. We therefore propose that the reach of current platforms can be increased by partnering across European countries.** We highlight two ways in which existing efforts can be expanded.

1. The European Investment Project Portal (EIPP) can be expanded, by integrating it with similar initiatives existing in member states and increasing its focus on startup and scaleup projects. The EIPP was set up in 2017 and currently serves as a matchmaking portal between various EU projects and global investors. The EIPP allows investors to search for startup and SME projects, however, the platform is not specifically designed to meet the needs of startups or scaleups. Moreover, its database is currently limited to 355 startup and SME projects that investors can browse. By partnering with national platforms, the EIPP can expand its reach and focus on startups and scaleups. For example, in March 2018, the EIPP announced such a partnership with EuroQuity, a matchmaking platform operated by the French public investment bank (Bpifrance). EuroQuity lists more than 10,000 companies, 1,500 investors and 1,000 business support mechanisms. Policymakers are advised to facilitate these partnerships to increase the usability of matchmaking platforms for entrepreneurs and investors alike.
2. The European Commission has furthered matchmaking efforts through the establishment of the Startup Europe Partnership, the first pan-European platform dedicated to transforming European startups into scaleups by linking them with global corporations and stock exchanges. This happens, for example, during Scaleup Summits at stock exchanges throughout Europe, where scaleups take part in one-to-one meetings with investors and corporates. The format of these meetings – invite-only, pre-screened, and with a clear goal – aims to maximise the value for both parties. This format could be further expanded or repeated on a wider scale.

6.2.3 Support online and offline peer-to-peer learning

Research shows that peer-to-peer learning is an important driver of growth, for example by facilitating knowledge transfer and access to resources.⁹¹ Specifically, we suggest that **peer-to-peer learning can help entrepreneurs overcome various demand-side hurdles**, such as:

- Increasing entrepreneurs' awareness of finance options and their confidence to pursue them.
- Reducing entrepreneurs' time and effort to seek finance.
- Helping entrepreneurs adopt practices as the business grows.

Policymakers should therefore work on providing platforms that facilitate peer-to-peer learning opportunities. Peer-to-peer learning can take place online, offline or both. For example, the Startup Europe Club website currently serves as the online one-stop shop for startups, but it could be expanded to also benefit entrepreneurs as an online peer-to-peer learning platform, where entrepreneurs can share experiences and lessons learned. At the same time, there is an important offline and local component to peer learning. Research by Startup Genome finds that founders who are strongly connected to other founders in their local ecosystem tend to have higher performance in terms of revenue and employment growth.³⁶ The ScaleUp Institute's 2018 Annual Scaleup Review corroborates that leaders of scaleups want locally delivered solutions, including local peer-to-peer scaleup networks.¹¹

Government bodies play an important facilitating role in bringing together relevant stakeholders to foster peer-to-peer learning. We highlight two ways to support peer-to-peer learning, both on an EU and country level:

1. The European Commission can **expand the Erasmus for Young Entrepreneurs programme**. This cross-border programme, launched in 2009, allows entrepreneurs who intend to start or have recently started their business to spend time in another EU country to learn from an experienced entrepreneur. Since its inception, it has established over 7,000 relationships and has resulted in the creation of new businesses by 36 per cent of the participating entrepreneurs. A mid-term evaluation also suggests that the programme supports job creation: between 2014-2016, 1,059 new jobs were created by new entrepreneurs and 1,157 new jobs by host entrepreneurs. To increase its impact, the programme could be expanded to offer 'startup internships' for high school and university students, as called for by the Scale Up Europe Manifesto.²¹ The programme could also incorporate a specialised track targeted at potential high-growth entrepreneurs who seek to expand their business in a new European country by matching them to high-growth businesses.
2. Member states can **initiate public-private collaborations to develop national peer-to-peer platforms**. One example of such a platform is *nlgroeit*, a Dutch platform designed to help entrepreneurs take the next step on their paths to scaling. The platform is a joint initiative by the Ministry of Economic Affairs and Chamber of Commerce and a consortium of support organisations. One of the key features is an extensive mentor network, consisting of successful entrepreneurs with specific expertise. The network encourages and facilitates peer-to-peer learning, by organising events and facilitating matching between mentors and mentees. It also encourages mentees to eventually make the transition to mentors. We encourage other member states to adopt similar platforms for peer-to-peer learning. Peer groups are also proven to work well in the private sector. This is exemplified by programmes that have been endorsed by the ScaleUp Institute such as the *Supper Club*, *Vistage* and, on a UK Regional Level, in Swindon and Wiltshire.

6.3 Create spaces to facilitate risk-taking

Section 3.3.1 revealed that many European entrepreneurs develop innovative, globally-oriented business models. However, in building and growing such an innovative, global business, entrepreneurs will need to take significant amounts of risk: they are likely to face rejection and failure and may need to give up control over the business they created. Unsurprisingly, these hurdles can make entrepreneurs hesitant to pursue growth, even when they have a growth mindset and would be open to considering external finance.

A final area for policy intervention therefore involves supporting entrepreneurs in taking and managing the inherent risks associated with growth and finance. We suggest that policymakers can influence entrepreneurs' risk-taking behaviour by designing policy instruments that incentivise them to build and grow their business, and do not discourage them when they fail. Such instruments can come in many forms, including through the provision of loan guarantees, second chances and tax reliefs.

6.3.1 Expand loan guarantees for startups

In section 4.2.2, we found that many entrepreneurs perceive various obstacles to accessing external finance that may prevent them from seeking finance. One of the major hurdles entrepreneurs perceive is a lack of collateral. Some entrepreneurs are also discouraged from applying for bank loans, because they fear rejection.

We propose that **government loan guarantees should be expanded** to help entrepreneurs overcome these barriers. Specifically, loan guarantees can spur demand for external (debt) finance in at least three ways:

1. Reducing entrepreneurs' fear of failure. Loan guarantees increase the chances of entrepreneurs who do not have sufficient collateral or creditworthiness to obtain loans from banks, by reducing the risk associated with default for banks.
2. Influencing entrepreneurs' risk-taking behavior and encouraging those who otherwise would not consider bank loans to apply. Research suggests that the terms of loan contracts can influence entrepreneurs' risk-taking and uptake of loan guarantees.^{92, 112}
3. Encouraging discouraged borrowers – those who have applied for loans in the past but were rejected – to apply again.

A working paper by the EIF investigates the impact of such guarantees in seven European countries.⁹³ After two years, firms that benefited from EU loan guarantees recorded higher growth in assets, sales, and employment compared to similar firms that did not. These effects were particularly strong for smaller, younger SMEs, suggesting that **loan guarantees can be an important lever to boost the growth of startups**.

However, in many European countries including the UK, Belgium, Greece and France, these guarantees **represent less than one per cent of GDP**.⁹⁴ To ensure the provision of such guarantees across Europe, the EU and member states should consider expanding their efforts to fund guarantees for financial intermediaries. However, expanding loan guarantees for startups also implies greater financial risks and costs for governments. The trade-off between the costs and benefits should therefore be carefully considered and monitored.

6.3.2 Combine second chance policies for restarters with training

Fear of failure can impede entrepreneurs' willingness to take risks, and thereby to grow. An intuitive solution would be to support entrepreneurs so that their chances of failure reduce, for example by providing business training or patient capital. However, in contrast to common perception, failure actually may be a lever for growth. Various researchers highlight the positive impact of prior entrepreneurial experience on growth, indicating that second starters may be more successful than nascent entrepreneurs, because they benefit from the experience.^{26, 95}

For this reason, some policymakers are implementing 'second chance policies' that work on two fronts:

1. Reducing the chances of failure of promising entrepreneurs. In particular, the EU invites member states to help businesses restructure to prevent bankruptcy and to discharge entrepreneurs of debt from previous business ventures after a maximum period of three years.
2. Removing the stigma of business failure to encourage those who failed to try again. To this end, various campaigns have also been set up to alter the perception of business failure. For example, in Belgium, the 'failing forward' campaign aims to increase awareness that failure is an essential part of the entrepreneurial process. It does so by organising annual conferences around the topic, showcasing testimonies of entrepreneurs who failed and encouraging other entrepreneurs to upload their own failure story on the website.

The Scale Up Europe Manifesto endorses these second-chance policies and calls for all national governments to adopt them.²¹ Likewise, we believe that **second chance policies can encourage growth** in at least two ways:

1. They **act as a safety net** for first-time entrepreneurs who are considering growing their business, but may be reluctant to take the risk. Indeed, research suggests bankruptcy regimes may influence entrepreneurial risk-taking: there is a correlation between a country's bankruptcy regime (e.g. the number of years it takes to discharge) and its entrepreneurship rates.⁹⁶
2. They **support talented entrepreneurs to restart**. Data from the European Startup Monitor suggests that these policies could have a wide reach: 65 per cent of entrepreneurs reported that if their current startup failed, they would found another one.⁴⁴

However, it **cannot be assumed that each entrepreneur learns from failure**. The implementation of second chance policies for restarters should therefore be supplemented with targeted support to maximise learning from prior failure, for example in the form of mindset or business training. Because of a lack of data on restarters, it is currently difficult to assess the impact of second chance policies. Moreover, the limited evidence on whether restarters are more likely to survive and grow than nascent entrepreneurs is mixed. The relationship between prior failure and future venture performance is nuanced and largely dependent on the cognition of the entrepreneur.⁹⁷ For example, in a study of Danish restarters, an entrepreneur's education affected the likelihood that their second venture would fail.⁹⁸ Previously failed entrepreneurs with a bachelor degree or higher were less likely to fail again. As a result, we argue that second chance policies for restarters should not be implemented in isolation, but in conjunction with other support mechanisms that target entrepreneurs at the right time in their business journey (more on such a targeted approach in section 6.5.2).

6.3.3 Remove perverse tax biases that discourage growth

Tax regulations steer entrepreneurs' behaviour: they can have a motivating or disincentivising effect, for example on risk-taking, R&D spending or the likelihood of selling their business. For this reason, the Scale Up Europe Manifesto calls for adopting tax incentives for growth.²¹ Specifically, the manifesto proposes changing how stock options are taxed (i.e. as income upon executions instead of upon granting). Such a tax change would improve European entrepreneurs' ability to attract and retain talent. The manifesto also calls for ending tax bias that favours debt over equity, to neutralise an entrepreneur's decision between debt and equity finance. Here we underscore the **tax bias introduced by tax reliefs for small businesses that – counterintuitively – have a discouraging effect on 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 these benefits when they grow beyond a certain threshold. We highlight two examples of tax reliefs targeted at small firms that can actually disincentivise them to grow.

1. In France, a proposed three per cent Digital Service Tax on turnover would not apply to startups with a turnover of less than €25 million locally or €750 million globally. This tax could incentivise startups to stay below this threshold, thereby reducing growth.

2. The UK's Entrepreneurs' Relief (ER) programme, introduced in 2008, is another example of how tax reliefs designed to support entrepreneurs can have counterproductive effects. ER aims to incentivise and reward successful entrepreneurs, acknowledging that they take significant risk to build and grow their business. Specifically, ER allows entrepreneurs who sell (parts of) their business to benefit from tax reliefs on their gains. However, at its inception, this only applied to entrepreneurs who hold more than five per cent interest in their company. This threshold disincentivised entrepreneurs to seek an external investment that would dilute their shareholding below this threshold, exacerbating their aversion to give up control over the business, thereby discouraging growth. For this reason, the UK government introduced a new bill in April 2019 to allow entrepreneurs who no longer hold five per cent interest to claim ER, when the reduction is due to issuing shares to raise capital for trade.⁹⁹

We therefore urge policymakers to consider carefully the effect of such 'cliff edges', and to remove existing tax biases where they exist. As proposed by the Progressive Policy Institute, there may be benefit in replacing some schemes with a tapered 'startup tax credit' where the tax benefits would phase out as the business grows.¹⁰⁰

6.4 Develop policies that are smart, inclusive and fit for the future

Consistent with Nesta's approach to innovation and entrepreneurship policy, we suggest that the above areas for policy intervention should be developed in a way that is 'smart', 'inclusive' and 'fit for the future'.¹⁰¹

Current entrepreneurship policies to support growth are not smart enough. Indeed, only limited evidence is available on what policies are actually working for entrepreneurs. For example, in section 4.2.1, we noted how despite an abundance of support available to entrepreneurs, only few perceive this as relevant or helpful. Also, despite calls for second-chance policies for honest entrepreneurs, the evidence on whether restarters are more effective than nascent entrepreneurs is mixed.

Moreover, **current entrepreneurship policy is still too exclusive.** In Chapter 2, we found that only a minority of entrepreneurs are likely to overcome various hurdles to seeking external finance for growth, ultimately reducing their chances of scaling. And, rather than supporting growth, we found that some policies are actually discouraging entrepreneurs from growing, further reducing the odds of scaling.

Finally, **entrepreneurship policy is not innovative enough.** Despite a pressing need for entrepreneurs to innovate and develop global technological breakthroughs, there is a lack of policy to support them. For example, a high number of entrepreneurs report operating in highly innovative and global markets, however they are hindered by a fragmented market and policies that discourage risk-taking.

Below we suggest various ways to ensure future entrepreneurship policy in our proposed areas for intervention is smarter, more inclusive and fit for the future.

6.4.1 Build better evidence, such as through Randomised Control Trials

As mentioned, a wide range of support mechanisms exists for entrepreneurs seeking to start and grow their business. One of the key challenges for policymakers is to validate which ones are most effective under which circumstances, to ensure targeted spending and support. Various qualitative and quantitative methods can inform policymakers about which support programmes work and which do not. Here we focus on randomised control trials, often considered the 'gold standard' in building a strong evidence base.

Randomised control trials are an effective method to determine the impact of various support mechanisms such as business and mindset training. Such training activities for entrepreneurs may involve (a combination of) formal courses, personal reflection, peer support and expert mentoring.¹⁰² RCTs can help policymakers understand which of these training formats actually increase the performance of entrepreneurs, in terms of various outcomes such as profits, sales, growth and survival.

RCTs offer two important benefits compared to other research methods.¹⁰³ First, by randomly assigning entrepreneurs to different treatments (e.g. training formats), the method overcomes problems of self-selection and can establish causality rather than correlation. A second benefit of RCTs is replicability. When trials are conducted using a standardised and transparent procedure, they can easily be replicated across countries. Such replication supports the creation of a strong evidence base. For example, Cusolito et al. carried out a five-country experiment to examine the effect of investment readiness programmes.¹⁰⁴ Firms were randomly assigned to a treatment and control group. While the control group received an inexpensive online programme, the treatment group received a combination of training, mentoring, masterclasses, networking and pitch preparation. The results show that the treated firms received a higher investment readiness score, measured by independent judges' scores in a pitch competition. Two years later, treated firms also received more media attention and were five per cent more likely to attract funding from an outside investor (however, the latter finding was not statistically significant). The findings offer insights for policymakers into whether and how to use investment readiness programmes.

Policymakers should support RCTs that seek to evaluate specific training programmes, for example by sponsoring them or supporting the recruitment of participants. For example, in the UK, the Business Basics Fund provides grants to carry out trials. This way, the government seeks to generate robust evidence on what tools can effectively encourage SMEs to adopt technology and/or management practices. The Innovation Growth Lab, run by Nesta and international partners, also aims to support the use of trials to identify and test effective interventions and calls for experimental innovation and growth policy.¹⁰⁵ They do so by running and funding trials, and promoting their wider adoption through community-building and sharing resources.

Box 3: Examples of trials that can improve smart policies

Above, we highlighted several areas for intervention and suggested ways to develop and nurture a growth mindset in entrepreneurs, improve their awareness and access to information, and encourage them to experiment and learn from failure. While some of these proposed actions are based on experimental evidence of what works (e.g. growth mindset training, peer-to-peer advice), others would benefit from more experimental evidence to assess their impact. Below, we identify some examples of trials that can improve the development of smart policies.

Testing the impact of training

In section 6.3.2, we emphasised the need to complement second-chance policies for restarters with mindset and/or business training, to increase their likelihood of success. An RCT could validate these claims, by randomly assigning groups of restarters to different treatments: mindset training, business training, and a control group that receives no training, but the financial equivalent of training.

Other training to support growth-oriented entrepreneurs, but whose impact on growth outcomes remain – to our knowledge – untested could include training to develop scalable business models, to transition from a founder to a leader role and to increase confidence around speaking to investors.

Determining (cost) effective training formats

In section 6.2.3, we highlighted role models and peer-to-peer learning as important tools to increase an entrepreneur's financial awareness, confidence and growth mindset. However, it is not clear if such tools delivered face-to-face are more impactful than online. To identify the most effective way to deliver (financial) advice to entrepreneurs, an RCT could be set up where entrepreneurs randomly interact with a peer/role model online or offline.

6.4.2 Adhere to think small first principle

Entrepreneurs need a suitable regulatory framework to operate and grow their business in. However, their unique needs and barriers are often overlooked by public authorities who tend to design rules and procedures with large companies in mind. For this reason, the EU encourages policymakers to adhere to the 'think small first' principle and create policies from the point of view of SMEs. To help implement the principle and analyse the effect of legislative proposals on SMEs, the SME test was developed. This test includes actions such as assessing which businesses are likely to be affected, consulting with SMEs and measuring impact on SMEs. However, a study revealed that at least in the early stages, in the majority of cases European policymakers were failing to 'think small first'.¹⁰⁶ We therefore support the Scale Up Europe Manifesto's call to **apply the SME test systematically at all levels of government and to add a new component: the 'scale-up' test.**²¹

6.4.3 Engage a broader set of stakeholders

To support innovation, it is becoming increasingly important for policymakers to engage a broader set of stakeholders in legislative decision-making, including entrepreneurs, large companies and citizens. This is especially **crucial for entrepreneurs who operate in such an innovative space that no up-to-date regulation is available to guide them**, for example those active in fast-moving technological innovations such as blockchain or artificial intelligence. In these instances, there is also a high risk of fragmentation, when each individual country develops a set of regulations in isolation. A key task for policymakers therefore should be to unify the regulatory market, and establish a common regulatory framework for entrepreneurs when they register and operate their business in a different country. Importantly, to spot inconsistencies and fragmented regulations across European markets, inclusion is needed from different national and international stakeholders.

Such inclusion can be achieved through anticipatory regulation, an innovation method pioneered by Nesta to support the development of new technologies and business models in a responsible and inclusive way. This involves taking a collaborative approach where government leaders, businesses and citizens work together to shape regulation that creates value for all stakeholders involved. A recent Nesta report highlights six principles of anticipatory regulation, to help governments and regulators move from traditional regulatory practice to a more anticipatory approach.¹⁰⁷ These principles are: inclusive and collaborative, future-facing, proactive, iterative, outcome-based and experimental.

As a step towards such anticipatory regulation, governments are increasingly setting up regulatory sandboxes and innovation testbeds for new technologies such as the Internet of Things or driverless cars. A forthcoming Nesta report sheds light on the concept of innovation test beds, by offering a definition and typology. The report also differentiates test beds from other policy tools such as sandboxes. While the former aims to test and evaluate an already developed innovation in real-world conditions with controlled risk, the latter is mostly used in a bounded environment to further develop and refine an innovation that currently only has minimal functionality. Most importantly, test beds and sandboxes allow startups and scaleups to engage with local ecosystems (including regulators) to test and upscale their technologies in a faster and safer way. Underscoring the Scale Up Europe Manifesto, we urge European regulators to adopt and embrace these policy tools and to provide incentives for startups and scaleups to participate.²¹

6.5 Develop targeted policies to fit the entrepreneur's context

6.5.1 Choose the right intervention level

The challenge of fostering high growth entrepreneurship is one that spans policy boundaries and can be addressed at different levels of policymaking: from municipal to European level. To maximise the effectiveness of policies it is important that they are implemented at the right level within a given context. The policy actions formulated in this report are necessarily broad, as they should be adapted to take into account the setting in which they are implemented.

Some interventions we highlighted could benefit from scale and harmonisation (e.g. matchmaking platforms, finance hubs, entrepreneurship education, loan guarantees) and therefore could be implemented at a European level. Other interventions specifically require a local approach (e.g. mindset training, peer-to-peer platforms).

To effectively target entrepreneurs at the right level, we advise policymakers to **develop an EU-level observatory or think tank for studying growth and growth-related policies** (as also called for by the Scale Up Europe Manifesto). Such an observatory could present evidence-based views and assessments of different policies, both at country and EU-level, to track progress as well as highlighting best practices that can be adapted at different levels. This will inform policymakers on how and where to maximise the impact of policy measures and can ensure the alignment of policies and support measures at different levels of governance.

6.5.2 Choose the right intervention time

In section 3.4, we showed how growth is a personal process, often initiated by one or more trigger events. These events are important intervention points for policymakers to assist entrepreneurs in growing their business. After these trigger events, policy interventions are likely to have a direct impact on whether entrepreneurs are able to spur a growth episode.

We therefore advise policymakers to consider the role of time in implementing interventions. Support should be directed at entrepreneurs when they experience one or more trigger events, to help them alleviate common hurdles to growth and raising finance.

To offer such a targeted approach, we advise policymakers to track indicators of trigger events. One approach we recommend is to **pilot a programme for entrepreneurs to provide periodic information related to trigger events, growth intent and growth outcomes in exchange for targeted support**. Such a programme could offer two benefits:

1. For policymakers, it would create an evidence base of what trigger events spark growth episodes, improving the ability to offer targeted and effective support.
2. Entrepreneurs would benefit from targeted support in the form of training, financial advice, or loan guarantees when they need it the most, helping them overcome various demand-side hurdles to growth such as little awareness of support and finance options or risk aversion.



Conclusions

Why do few startups scale? This question is high on the agenda of policymakers and researchers, but is complex to answer: entrepreneurs' paths to scaling are influenced by many factors. In this report, we focus on the demand-side factors, that is, understanding how entrepreneurs' motivations, perceptions and mindsets influence their growth and financing decisions.

We spoke to founders of European startups and scaleups and dug into various data sources to better understand how entrepreneurs think about growth and finance, ultimately to identify the demand-side hurdles they may face on their paths to scaling. These insights are a basis for policymakers to better support entrepreneurs in scaling and planning their financing strategies for growth. At the same time, they can help entrepreneurs who seek to embark on their own path to scale better understand their motivations, mindset and ability to grow and seek finance. Key insights and calls for action are:

The path to scaling puts large cognitive demands on entrepreneurs. Not only do entrepreneurs need the motivation and mindset to grow, they need the skills to develop scalable business models and change roles as the business grows. To fuel that growth, they may need to seek external finance. Seeking such finance in turn requires being aware of various finance options, assessing what types of finance are most suitable, taking the time from running the business to seek investment, being confident speaking to investors and – last but not least – taking significant amounts of risk and sometimes losing control over the business. For many entrepreneurs who would have the potential to scale, these demands may pose hurdles, hindering or even completely preventing them from seeking high growth and external finance. In fact, we estimate that **out of 100 entrepreneurs, only two would overcome all hurdles to seeking finance for growth.** Focusing on this demand side therefore helps explain why only few startups scale, and highlights areas where more policy focus is needed.

We call on policymakers to emphasise three areas to help entrepreneurs with the potential to scale overcome demand-side hurdles to growth and finance:

- **Nurture entrepreneurial mindsets for growth.** We call for incorporating a mindset for growth across the education spectrum, from elementary to university education, to increase the pool of potential high-growth entrepreneurs that will embark on a scaling journey. To support startup and scaleup entrepreneurs in developing growth mindsets, we propose emphasising mindset training alongside existing business support programmes that largely focus on business practices.
- **Improve awareness of and access to resources for growth.** Despite an abundance of support programmes for entrepreneurs, many are not aware of them, or worse – do not perceive them as helpful. We call to improve and expand existing resources, including finance hubs to offer tailored advice, matchmaking platforms and peer-to-peer learning initiatives. These initiatives can spark the demand for growth and finance among existing entrepreneurs and help those with the potential to scale access the resources they need.
- **Create spaces for risk-taking.** To help entrepreneurs take the inherent risks involved with growing and seeking finance, we call for removing tax biases that disincentivise risk-taking and growth and supporting those growth-oriented entrepreneurs who failed previously to try again, but this time supported by dedicated training.

Growth is an individual process, spurred by trigger events (e.g. increased customer demand, participating in a matchmaking event). These trigger events are important points for policy intervention because, after these events, support in the form of financial advice or mindset training is likely to directly impact whether an entrepreneur is able to capitalise on a potential growth opportunity. However, to date, it is unclear which trigger events can spark growth intent and actual growth. We therefore call on policymakers to pilot a programme where entrepreneurs can opt in to provide periodic information related to potential trigger events, in exchange for targeted support.

The realisation that growth is a highly personalised process that requires overcoming significant demand-side hurdles raises important questions for where to target support: should policymakers focus on supporting all entrepreneurs to overcome demand-side hurdles to improve their likelihood of scaling (the 98 per cent) or should they target those who already have the right characteristics to scale (the two per cent)? It was beyond the scope of this report to provide the answers, but we acknowledge that entrepreneurs have different demands and needs and are likely to require different types of support at different points in time. We therefore **call for more research into how to better match the supply of policy interventions with the unique demand of different types of entrepreneurs**. Further, it is vital to recognise that SMEs are not a homogenous group. Interventions must be tailored to scaling and scaleup segments of the EU business population to meet the specific needs which arise through high growth. To enable this, better data at a European level is fundamental and must be prioritised to allow for effective segmentation and better policy development.

In conclusion, by peeking into the minds of entrepreneurs in Europe, this report offers a new perspective on the scaling problem. Through our calls for policy actions, we hope that more entrepreneurs feel up to the task of pursuing high growth and seeking external finance, ultimately to improve their chances of scaling and realising a positive impact on the economy and society as a whole.

8

Overview of financing paths

	In short	Average investment size (in €)	Average time to raise finance	Cost of finance	Collateral
Bootstrapping	Finance is generated within the business (no external capital)	N/A	N/A	N/A	None
Crowdfunding	Finance is sourced from the crowd on online platforms	10k (rewards-based) 214k (equity-based)	1–2 months	Medium	Any (chosen by the startup)
Angel Investment	Finance is sourced from individuals investing their own money	180k	2–6 months	Low	A share of ownership or repayable debt
Venture Capital	Finance is sourced from institutional investors or larger corporations	6m	6–12 months	Medium	A share of ownership or repayable debt
Initial Coin Offering	Finance is sourced from public investors using cryptocurrencies	23m	3–12 months	Medium	Any type of tokens (chosen by the startup)
Corporate Acquisition	Finance is sourced through acquisitions by corporations	57m	4–6 months	Medium to high	Company restructuring
Initial Public Offering	Finance is sourced by selling shares to public investors on the stock market	120m	2–18 months	High	Multiple small shares of ownership
Private Placement	Finance is sourced from a small group of selected investors through a private offering	210m	4–10 weeks	High	A share of ownership or repayable debt

Source: Nesta 2019. Paths to Scale: Finance lessons from European entrepreneurs.

9

Glossary

Term	Definition
Early-stage entrepreneurs	Percentage of the 18-64 population who are either a nascent entrepreneur or owner-manager of a new business, i.e. those who are involved in the setting up of a business or have a business that is less than three and a half years old.
Gazelles	Enterprises up to five years old with average annualised growth greater than 20 per cent per annum, over a three-year period (a subset of high-growth companies).
High-growth enterprises	Enterprises with an average annualised growth in the number of employees of more than ten per cent per year over a three-year period and at least ten employees when the growth began.
Scaleups	Businesses that are past the startup/search phase, but are in the execution phase of their business model, looking to grow in terms of market access, revenues, and number of employees.
Small and medium-sized enterprises	Micro, small and medium enterprises employing fewer than 250 people and with an annual turnover not exceeding €50 million, and/or an annual balance sheet total not exceeding €43 million.
Startups	Development-stage businesses that are looking to grow in terms of market access, revenues and number of employees, but are still in search for a repeatable and scalable business model.
Unicorns	Privately held tech firms worth over \$1 billion.

10

Acknowledgements

This report would not have been possible without the contributions of many experts who shared their knowledge and insights with us. We are grateful for the feedback and support from our colleagues at Nesta throughout various stages of this research: **Egle Juospaityte**, **Albert Bravo-Biosca**, **James Phipps**, **Hugo Cuello**, **Jonathan Bone** and **Jen Rae**. We would also like to thank our SEP project partners, in particular Mind the Bridge, the ScaleUp Institute and Startup Olé, for supporting this research, as well as the following reviewers:

Shaun Beaney (Manager, Corporate Finance at ICAEW), **Philipp-Bastian Brutscher** (Economist at the European Investment Bank), **Désirée Rückert** (Economist at the European Investment Bank), **Dan van der Schans** (Senior Manager/Economic Advisor at British Business Bank), **Mark Hart** (Professor of Small Business and Entrepreneurship at Aston Business School), **Neha Prashar** (Research Fellow at Enterprise Research Centre) and **Rob Turner** (Director - Insight and Analytics at Grant Thornton UK).

We thank the European Startup Monitor for sharing their data. These data have been compiled by **Prof. Mauer** and his team, notably **M.Sc. Lisa Steigertahl**, ESCP Europe for the European Commission, financed by the COSME Programme. They are and remain property of the European Commission.

We are especially grateful to the entrepreneurs participating in our roundtables at the SEP Scaleup Summit in Milan (March 11-12, 2019), Startup Europe Summit in Cluj-Napoca (March 21-22, 2019), and Startup Olé in Salamanca (March 26-28, 2019) and to the scaleup founders sharing their growth stories: **Johan Attby** (CEO and Co-founder at Fishbrain), **Jonathan Azoulay** (CEO and Founder at Talent.io), **Charles-Antoine de Beaumont** (Managing Director and Co-founder at STYCKR), **Dagmawi Belay** (CEO and Co-founder at Carcela), **Michał Borkowski** (CEO and Founder at Brainly), **Luca Bottone** (Chief Risk and Compliance Officer at Credimi), **Bruno Fonseca** (CEO and Co-founder at Agroop), **Mike Gleaves** (CTO and Co-founder at Arralis), **Dan Hubert** (CEO and founder at AppyParking), **Vytautas Karalevičius** (Founder at Bankera), **Dr Markus Knappek** (Co-founder at Mynaric), **Rolf-Dieter Lafrenz** (CEO and Founder at Cargonexx), **Lasse Mäkelä** (CEO and Co-founder at Invesdor), **Frédéric Mazzella** (Co-founder at BlaBlaCar), **Sven Meyer-Brunswick** (Director of Communications and Corporate Growth at Mynaric), **Sacha Michaud** (Co-founder at Glovo), **Krasina Mileva** (COO and Co-founder at DOVU), **Javier Mira** (CEO and Co-founder at FacePhi), **Melissa Morris** (CEO and Co-founder at Lantum), **Dr Claire Novorol** (Co-founder and Chief Medical Officer at Ada Health), **Vasco Pedro** (CEO and Co-founder at Unbabel), **Ignazio Rocco di Torrepadula** (CEO and Co-founder at Credimi), **David Rodriguez** (CEO and Co-founder at CornerJob), **Kaidi Ruusalepp** (CEO and Co-founder at Funderbeam), **Tim Schumacher** (Chairman and Co-founder at Eyeo), **Vasja Veber** (COO and Co-founder at Viberate), **Frank Westermann** (CEO and Co-founder at mySugr), **Benny Willen** (CEO and Co-founder at Cloudalize).

This report was produced by Nesta as part of The Startup Europe Partnership project. This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 780601.

References and endnotes

1. Schoar, A. The Divide between Subsistence and Transformational Entrepreneurship. *Innovation Policy and the Economy* 10, 57–81 (2010).
2. Calvino, F., Criscuolo, C. & Menon, C. A cross-country analysis of start-up employment dynamics. *Industrial and Corporate Change* 27, 677–698 (2018).
3. Eurostat. Entrepreneurship indicator programme. (2019).
4. In EU's member states plus Norway. Due to a lack of data availability, Greece, Croatia, Cyprus and Malta were excluded.
5. Anyadike-Danes, M. et al. An international cohort comparison of size effects on job growth. *Small Business Economics* 44, 821–844 (2015).
6. Based on a cohort study of businesses in Austria, Finland, Germany, Norway, Sweden and the United Kingdom. However, the data do not distinguish between de novo births and firms that are born because of a split with an existing firm. Similarly, there is no distinction between a firm that closes or disappears because of a merger.
7. From a database of 400,000 new enterprises spread over 24 Western countries (excluding independent professionals, craftspeople, non-profits, farming, and small hospitality companies), 0.5 per cent of surviving new enterprises became a scaleup, defined as companies that grow to more than \$10 million by their 5th year of revenue.
8. Deloitte. Scale-up: the experience game. (2015).
9. Growth in employment by ten per cent or more.
10. Bravo-Biosca, A. & Westlake, S. The vital 6 per cent - How high-growth innovative businesses generate prosperity and jobs. (Nesta, 2009).
11. The ScaleUp Institute. Annual ScaleUp Review 2018. (2018).
12. Block, J. H., Fisch, C. O. & van Praag, M. Quantity and quality of jobs by entrepreneurial firms. *Oxf Rev Econ Policy* 34, 565–583 (2018).
13. OECD. Enabling SMEs to scale up. (2018).
14. Fritsch, M. The Effect of New Business Formation on Regional Development: Empirical Evidence, Interpretation, and Avenues for Further Research. in *Handbook of Research on Entrepreneurship and Regional Development* (ed. Fritsch, M.) 58–106 (Edward Elgar, 2011).
15. European Commission. User guide to the SME Definition. (2016).
16. Onetti, A. Scaleups. When does a Startup turn into a Scaleup. Startup Europe Partnership (2014). Available at: <https://startupeuropespartnership.eu/scaleups-when-does-a-startup-turn-into-a-scaleup/>.
17. Scaleups are defined according to the OECD definition: enterprises with average annual growth in employees or turnover greater than 20 per cent per annum over a three-year period, and with more than ten employees at the beginning of the period. Originally, this definition was developed to describe high-growth enterprises (OECD-Eurostat Manual on Business Demography Statistics, 2007). In recent years, the term scaleups has become more prevalent and is often being used interchangeably with high-growth firms. A recent evolution of this is the 'small high growth firms' definition which removes the 10 employee cap providing the firm adds 8 or more employees during the three year period. In this report we have used a range of sources to plot the startup to scaleup journey, including SME, startup and scaleup data sources.
18. Bannerjee, S., Bielli, S. & Haley, C. Scaling Together: Overcoming Barriers in Corporate-Startup Collaboration. (Nesta, 2016).
19. Mocker, V., Bielli, S. & Haley, C. Winning together: A guide to successful corporate-startup collaborations. (Nesta, 2015).
20. Haley, C., van Blitterswijk, D. & Febvre, J. Paths to Scale: Finance lessons from European entrepreneurs. (Nesta, 2019).
21. The Lisbon Council asbl, Nesta & Open Evidence sl. A Manifesto for Change and Empowerment in the Digital Age. (2016).
22. European Startup Network. Startup and Scaleup Ecosystem: Recommendations for Policy Change. (2018).
23. For a detailed review, see: The ScaleUp Institute. Annual ScaleUp Review. (2018).
24. Fraser, S., Bhaumik, S. & Wright, M. Entrepreneurial Finance and Growth: What Do We Know About The Relationship Between Entrepreneurial Finance and Growth? (Enterprise Research Centre, 2013).
25. Hayter, C. S. In search of the profit-maximizing actor: Motivations and definitions of success from nascent academic entrepreneurs. *J. Technol. Transf.* 36, 340–352 (2011).
26. Lockett, A., Hayton, J., Ucbasaran, D., Mole, K. & Hodgkinson, G. P. Entrepreneurial Leadership, Capabilities and Growth. (Enterprise Research Centre, 2013).
27. Owen, R., Botelho, T. & Anwar, O. Exploring the success and barriers to SME access to finance and its potential role in achieving growth. (Enterprise Research Centre, 2016).
28. Wright, M. & Fraser, S. Financing growth. (Enterprise Research Centre, 2014).

29. The ScaleUp Institute & Beauhurst. The ScaleUp Index. (2018).
30. Hodgkinson, G. P., Sund, K. J. & Galavan, R. J. Exploring Methods in Managerial and Organizational Cognition: Advances, Controversies, and Contributions. in *Methodological Challenges and Advances in Managerial and Organizational Cognition* 1–22 (emeraldinsight.com, 2017).
31. Hodgkinson, G. P. & Healey, M. P. Cognition in organizations. *Annu. Rev. Psychol.* 59, 387–417 (2008).
32. Depending on the data source, the sample of entrepreneurs differs. The GEM sample includes early-stage entrepreneurs in 18 European countries. The Startup Genome sample includes founders in nine European startup ecosystems (e.g. London, Amsterdam). The sample from the ScaleUp Institute includes scaleups in the UK. The sample from SAFE includes gazelles from 28 European countries. The sample from BEIS includes UK SMEs. The sample from ESM includes startups in 18 European countries. Our internal research includes startups and scaleups across Europe.
33. We relied on the following assumptions: 1) The hurdles are 'independent events', e.g. the likelihood of having a scalable business model is independent from the likelihood of being having a growth mindset. We acknowledge that the factors are not completely independent, but are likely to be correlated. 2) When available, we used data from scaleups, gazelles and founders in European startup ecosystems to calculate an 'upper' estimate, assuming that this population would be most likely to overcome the various hurdles. 3) When available, we used data from the general SME population to calculate a 'lower' estimate, assuming that this population of entrepreneurs would be least likely to overcome the various hurdles.
34. Percentage of the 18-64 population who are either a nascent entrepreneur or owner-manager of a new business, i.e. those who are involved in the setting up of a business or have a business that is less than three and a half years old.
35. Bosma, N. & Kelley, D. *Global Entrepreneurship Monitor 2018/2019 Global Report*. (Global Entrepreneurship Monitor, 2019).
36. Gauthier, J. F., Penzel, M. & Marmer, M. *Global startup ecosystem report 2018*. (Startup Genome, 2018).
37. Allinson, G., Braidford, P., Houston, M. & Stone, I. *Understanding growth in microbusinesses*. (Department for Business Innovation & Skills, 2013).
38. Department for Business Energy & Industrial Strategy. *Business Growth Ambitions amongst SME leaders - changes over time and links to growth*. (2016).
39. Wiklund, J., Davidsson, P. & Delmar, F. What Do They Think and Feel about Growth? An Expectancy-Value Approach to Small Business Managers' Attitudes toward Growth 1. *Entrepreneurship Theory & Practice* 27, 247–269 (2003).
40. Manchester Metropolitan University. *Mindset of high growth report*. (2015).
41. Dweck, C. S. *Self-theories: Their role in motivation, personality, and development*. (Philadelphia, PA: Psychology Press, 2000).
42. Ahmetoglu, G. & Chamorro-Premuzic. *Measuring Entrepreneurial Talent - Technical Manual*. (Metaprofiling, 2013).
43. With the exception of Poland (three per cent), Bulgaria (seven per cent), the Netherlands (nine per cent), Spain (nine per cent) and Germany (19 per cent).
44. Steigertahl, L. & Mauer, R. *EU Startup Monitor*. (2018).
45. Lee, N., Brown, R. & Schlueter, T. *Modes of firm growth*. (Enterprise Research Centre, 2016).
46. Mohout, O. *European Scaleup Report 2018*. (Sirris, 2019).
47. Monzo Bank Limited. *Annual Report and Financial Statements*. (2018).
48. The Economist. *The wave of unicorn IPOs reveals Silicon Valley's groupthink*. *The Economist* (2019). Available at: <https://www.economist.com/briefing/2019/04/17/the-wave-of-unicorn-ipos-reveals-silicon-valleys-groupthink>. (Accessed: 24th April 2019)
49. Fazio, C., Guzman, J., Murray, F. & Stern, S. *A New View of the Skew: A Quantitative Assessment of the Quality of American Entrepreneurship*. MIT Innovation Initiative 1–19 (2016).
50. *Business Model Innovation*. BCG (2019). Available at: <https://www.bcg.com/en-gb/capabilities/strategy/business-model-innovation.aspx>.
51. These respondents agreed or totally agreed with the statement: 'Thinking up new ideas and being creative is important to me. I like to do things in my own original way'.
52. Gleibs, I. *From Entrepreneurs to 'Entrepreneurs of Identity' - The Transition from Founder to Leader in Start-ups*. in *Academy of Management Global Proceedings* (2018).
53. These respondents had a score greater than or equal to four on the participative leadership scale, developed by GLOBE.
54. Department for Business Energy & Industrial Strategy. *Small businesses and productivity*. (2018).
55. McKenzie, D. & Woodruff, C. *Business Practices in Small Firms in Developing Countries*. (2016).

56. Sahlgren, G. H. Human capital and business stay-up - the relationship between education, skills and entrepreneurial success. (Centre for Education Economics, 2018).
57. These respondents scored a value of less than or equal to two on a composite scale, consisting of two items measured on a five-point Likert scale: 'We let the business develop step-by-step and had no clear idea of what it will look like in the end' and 'We developed the business based on the resources that we had available, without any clear vision of what the business would become in the end'.
58. Brown, R., Mawson, S. & Mason, C. Myth-busting and entrepreneurship policy: the case of high growth firms. *Entrep. Reg. Dev.* 29, 414–443 (2017).
59. Coad, A., Frankish, J., Roberts, R. G. & Storey, D. J. Growth paths and survival chances: An application of Gambler's Ruin theory. *J. Bus. Venturing* 28, 615–632 (2013).
60. Anyadike-Danes, M. & Hart, M. Fecundity, fertility, survival and growth: high growth firms in the UK and their contribution to job creation, a demographic perspective. (2019).
61. AFME. The Shortage of Risk Capital for Europe's High Growth Businesses. (2017).
62. Daniels, C., Herrington, M. & Kew, P. Global Entrepreneurship Monitor 2015/2016: Special Report on Entrepreneurial Finance. (Global Entrepreneurship Monitor, 2016). doi:10.1017/CBO9781107415324.004.
63. European Investment Bank. EIB Investment Survey 2018. (2018).
64. These differences could be explained by differences in samples: while the GEM samples more broadly among early-stage entrepreneurs, the ESM specifically samples innovative startups. The differences could also hint at an evolution over time: between 2015 to 2018, the use of finance sources such as crowdfunding or venture capital has become more widespread (AFME 2018).
65. Mind the Bridge. Tech Scaleup Europe 2018 Report - SEP Monitor. (Startup Europe Partnership, 2018).
66. Cosh, A., Cumming, D. & Hughes, A. Outside Entrepreneurial Capital. *The Economic Journal* 119, 1494–1533 (2009).
67. Vos, E. & Forlong, C. The agency advantage of debt over the lifecycle of the firm. *The Journal of Entrepreneurial Finance* 5, 193–211 (1996).
68. BDRC. SME Finance Monitor Q4 2018. (2019).
69. Kwaak, T., van der Zeijden Paul, de K. J. & van der Graaf, A. Survey on the access to finance of enterprises (SAFE). 166 (European Commission, 2018). doi:10.2873/867948.
70. Bingham, C. B. & Eisenhardt, K. M. Rational heuristics: the 'simple rules' that strategists learn from process experience. *Strategic Manage. J.* 32, 1437–1464 (2011).
71. Department for Business Innovation & Skills. Small and Medium-sized Enterprise (SME) Journey Towards Raising External Finance. (2013).
72. Cole, R. A. & Sokolyk, T. Debt financing, survival, and growth of start-up firms. *Journal of Corporate Finance* 50, 609–625 (2018).
73. Chen, C. C., Greene, P. G. & Crick, A. Does entrepreneurial self-efficacy distinguish entrepreneurs from managers? *J. Bus. Venturing* 13, 295–316 (1998).
74. Baum, J. R. & Bird, B. J. The Successful Intelligence of High-Growth Entrepreneurs: Links to New Venture Growth. *Organization Science* 21, 397–412 (2010).
75. Cramer, J. S., Hartog, J., Jonker, N. & Van Praag, C. M. Low risk aversion encourages the choice for entrepreneurship: an empirical test of a truism. *J. Econ. Behav. Organ.* 48, 29–36 (2002).
76. Levie, J. & Autio, E. Growth and growth intentions: A meta-analysis of existing evidence. (2013).
77. Davidsson, P. Entrepreneurship — and after? A study of growth willingness in small firms. *J. Bus. Venturing* 4, 211–226 (1989).
78. The State of European Tech 2018. (Atomico, 2018).
79. IPO Watch Europe 2018. (PwC, 2018).
80. Cogman, D. & Poon, M. Choosing where to list your company. (McKinsey & Company, 2012).
81. Moore, C. B., Bell, R. G., Filatotchev, I. & Rasheed, A. A. Foreign IPO capital market choice: Understanding the institutional fit of corporate governance. *Strat. Mgmt. J.* 33, 914–937 (2012).
82. European Commission. Europe's next leaders: the Start-up and Scale-up Initiative. (2016).
83. Duruflé, G., Hellmann, T. F. & Wilson, K. E. From Start-Up to Scale-Up: Examining Public Policies for the Financing of High-Growth Ventures. (2016). doi:10.2139/ssrn.2913512
84. Campos, F. et al. Teaching personal initiative beats traditional training in boosting small business in West Africa. *Science* 357, 1287–1290 (2017).

85. These business owners received a five-day course in developing a self-starting, future-oriented and persistent proactive mindset.
86. Ubfal, D. et al. The Impact of Soft-Skills Training for Entrepreneurs in Jamaica. (2019).
87. Cooney, T. M. Entrepreneurship Skills for Growth-Orientated Businesses. (Danish Business Authority, 2012).
88. Galsworthy, J. Scale-up Support: Mindset of an entrepreneur. (Oxford Innovation, 2017).
89. Zupan, B., Cankar, F. & Setnikar Cankar, S. The development of an entrepreneurial mindset in primary education. *Eur J Educ* 53, 427–439 (2018).
90. Bacigalupo, M., Kampylis, P., Punie, Y. & Van den Brande, G. *EntreComp: The Entrepreneurship Competence Framework*. (European Commission, 2016).
91. Koning, R., Chatterji, R., Hasan, S. & Delecourt, S. When Does Advice Impact Start-up Performance? Evidence from a Field Experiment. in *Academy of Management Global Proceedings Tel Aviv*, 171 (2018).
92. Fischer, G. Contract Structure, Risk-Sharing, and Investment Choice. *Econometrica* 81, 883–939 (2013).
93. Bertoni, F., Brault, J., Colombo, M. G., Quas, A. & Signore, S. Econometric study on the impact of EU loan guarantee financial instruments on growth and jobs of SMEs. (European Investment Fund, 2019).
94. OECD. *Financing SMEs and Entrepreneurs 2018: An OECD Scoreboard*. (2018).
95. Barringer, B. R., Jones, F. F. & Neubaum, D. O. A quantitative content analysis of the characteristics of rapid-growth firms and their founders. *J. Bus. Venturing* 20, 663–687 (2005).
96. Muller, P. et al. *Insolvencies and SMEs: the role of Second Chance Special study*. (European Commission, 2019).
97. Yamakawa, Y., Peng, M. W. & Deeds, D. L. Rising from the Ashes: Cognitive Determinants of Venture Growth after Entrepreneurial Failure. *Entrepreneurship Theory and Practice* 39, 209–236 (2015).
98. Nielsen, K. & Sarasvathy, S. D. A Market for Lemons in Serial Entrepreneurship? Exploring Type I and Type II Errors in the Restart Decision. *Academy of Management Discoveries* 2, 247–271 (2016).
99. HM Treasury & HM Revenue & Customs. *Financing growth in innovative firms: allowing Entrepreneurs' Relief on gains before dilution*. (2018).
100. Long, E. & Mandel, M. *Escaping the Startup Trap: Can Policymakers Help Small Companies Grow to Major Employers?* (Progressive Policy Institute, 2019).
101. Nesta. *Our work in innovation policy*. (2019).
102. OECD. *Entrepreneurial Education in Practice - Part 1 - The Entrepreneurial Mindset*. (2015).
103. Reypens, C. & Levine, S. S. Chapter 6: To Grasp Cognition in Action, Combine Behavioral Experiments with Protocol Analysis. in *Methodological Challenges and Advances in Managerial and Organizational Cognition* 123–146 (emeraldinsight.com, 2017).
104. Cusolito, A. P., Dautovic, E. & David, M. Can Government Intervention Make Firms More Investment-Ready? A Randomized Experiment in the Western Balkans. (The World Bank, 2018). doi:10.1596/1813-9450-8541
105. Bravo-Biosca, A. *Experimental innovation and growth policy: Why do we need it?* (2016).
106. Beaupérin, T. 'Think small first in the EU'? A Reality Check. *European Journal of Risk Regulation* 5, 93–96 (2014).
107. Armstrong, H., Gorst, C. & Rae, J. *Renewing Regulation: 'anticipatory regulation' in an age of disruption*. (Nesta, 2019).
108. The ScaleUp Institute. *ScaleUp insights: Mapping national & regional initiatives for scaling businesses*. (2019 forthcoming).
109. Nesta. *Repayable finance in the arts and cultural sector*. (2018).
110. Bell, A., Chetty, R., Jaravel, X., Petkova, N. & Van Reenen, J. Who becomes an inventor in America? The importance of exposure to innovation. *The Quarterly Journal of Economics* 134, 647–713 (2018).
111. Tolhurst, G. & O'Connor, A. *100 Stories of Growth*. (Intelligent Partnership, 2018).
112. Cowling, M. *Loan guarantee schemes in the UK: What have we learnt?* (Enterprise Research Centre, 2019).



nesta

58 Victoria Embankment
London EC4Y 0DS

+44 (0)20 7438 2500

information@nesta.org.uk

 [@nesta_uk](https://twitter.com/nesta_uk)

 www.facebook.com/nesta.uk

www.nesta.org.uk

ISBN: 978-1-913095-10-9

Nesta is a registered charity in England and Wales with company number 7706036 and charity number 1144091.
Registered as a charity in Scotland number SCO42833. Registered office: 58 Victoria Embankment, London, EC4Y 0DS.



©2019 by Nesta. This work
is made available under
a Creative Commons
Attribution-ShareAlike
Licence 4.0 (international).

