



# Assessment of the Political Opportunities and Constraints of the Proposed Reform Agenda

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## Abbreviations

CDP – Cassa Depositi e Prestiti

CONSOB - Italian Companies and Exchange Commission

COSME - EU Programme for the Competitiveness of Enterprises and SMEs

EASME – Executive Agency for SMEs

EU – European Union

H2020 – Horizon 2020

ICT – Information and Communications Technology

LSE – London School of Economics and Political Science

OECD – Organisation for Economic Cooperation and Development

R & D – Research and Development

SBE – Small Business Enterprise

SME – Small and Medium-sized Enterprise

UK – United Kingdom

US – United States of America

VC – Venture Capital

## Executive summary

In this study, we primarily sought to gauge the views of a range of relevant stakeholders on the FIRES reform strategies for Italy,<sup>2</sup> Germany<sup>3</sup> and the UK,<sup>4</sup> in particular, but also on the more general reform agendas laid out in FIRES Deliverable 2.1<sup>5</sup>. More specifically, we aimed at gauging the views of the stakeholders on the merits of the proposals, the general usefulness of the three reform strategies, which of the proposals were the most important and which were the least important, and whether any of the proposals raised concerns regarding their political feasibility.

Regarding the political feasibility of implementing the reform strategies for Italy, UK and Germany, respectively, the consulted stakeholders raised concerns with respect to nine proposals (out of a total of 47 proposals): five of which concern Italy ('the rule of law'; 'knowledge generation'; 'education in the entrepreneurial society'; 'employment protection legislation #1'; and 'universities'), whereas the other four concern Germany ('employment protection legislation #1'; 'social insurance systems #2'; 'knowledge diffusion and commercialization'; and 'taxation of private wealth'). No concerns were raised with regard to the political feasibility of the proposals for Italy.

As for the general usefulness of each of the three country-specific reforms strategies, a majority of the respondents to the questionnaires found each of the reform strategies useful. Moreover, the stakeholders also suggested other policy areas that may be relevant for entrepreneurship policy, but which were not addressed in the strategies, such as: public procurement, data regulation and environmental protection.

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<sup>2</sup> Mark Sanders, Luca Grilli, Andrea Herrmann, Gresa Latifi, Balazs Pager, Laszlo Szerb and Elisa Terragno Bogliaccini, *Policy Brief on Reform Strategy for Italy*, No. 2018-02, March 2018.

<sup>3</sup> Mark Sanders, Michael Fritsch, Andrea Herrmann, Gresa Latifi, Balazs Pager, Laszlo Szerb, Elisa Terragno Bogliaccini and Michael Wyrwich, *Policy Brief on the FIRES-reform strategy for Germany*, April 2018.

<sup>4</sup> Mark Sanders, James Dunstan, Saul Estrin, Andrea Herrmann, Balazs Pager, Laszlo Szerb and Elisa Terragno Bogliaccini, *Policy Brief on the FIRES Reform Strategy for the UK*, No. 18-07/April 2018.

<sup>5</sup> Niklas Elert, Magnus Henrekson, and Mikael Stenkula, *An Institutional Framework for Innovation and Entrepreneurship*, FIRES Deliverable 2.1, 13 January 2017.

## 1. Introduction

The main objective of this study was to gauge the views of a range of relevant stakeholders on the FIRES reform strategies for Italy,<sup>6</sup> Germany<sup>7</sup> and the UK,<sup>8</sup> in particular, but also on the more general reform agendas laid out in FIRES Deliverable 2.1.<sup>9</sup> This deliverable complements Deliverable 6.2,<sup>10</sup> in which we analyzed the legal implications of the FIRES agenda to reform the EU's entrepreneurship policy. The aims of Deliverable 6.2 were *inter alia* to assess whether the FIRES recommendations were consistent with existing EU law and policy and to determine if the recommendations should be addressed primarily to the EU institutions or primarily to the Member States. Besides the legal dimension of the reform agenda there is also a policy/political dimension to the reform agenda which is the focus of this deliverable.

To be more specific, in this study we sought to gauge the views of the stakeholders on the merits of the proposals, the general usefulness of the three reform strategies, on which of the proposals were the most important ones and which were the least important ones, and whether any of the proposals raised concerns regarding the political feasibility of their implementation. For purposes of achieving this objective, we organized six policy round table discussions in the context of Project FIRES in Brussels (28 November 2017), Rome (5 March 2018), Berlin (24 April 2018), London (26 April 2018) and in Brussels again (25 May 2018).<sup>11</sup>

The first event, which took place in Brussels in November 2018, took the form of a roundtable on the FIRES reform agenda laid out in Deliverable 2.1.<sup>12</sup> The event started with a presentation of the project and of the reform agenda by Professor Magnus Henrekson (Research Institute of Industrial Economics; FIRES) which was followed by a panel discussion and discussions with the audience. The panel of discussants were two members of the European Parliament and one official from the European Commission (see Section 8 below). The audience, who also engaged in the discussions, consisted of

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<sup>6</sup> Sanders et al., n. 2 above.

<sup>7</sup> Sanders et al., n. 3 above.

<sup>8</sup> Sanders et al., n. 4 above.

<sup>9</sup> Elert, Henrekson and Stenkula, n. 5 above.

<sup>10</sup> Andrei Suse and Nicolas Hachez, *Identification and Assessment of the Legal Implications of an Entrepreneurial Reform Agenda*, FIRES Deliverable 6.2, 23 November 2017.

<sup>11</sup> The authors would like to thank Luca Grilli, Michael Fritsch, Andrea Herrmann, Saul Estrin and Magnus Henrekson for their role in organizing the policy round tables.

<sup>12</sup> Elert, Henrekson and Stenkula, n. 5 above.

more than 60 participants (EU institutions officials, government officials from the EU Member States, entrepreneurs and other business interests, investors, academics, diplomats, lawyers, etc.) – a list of participants can be found in Annex IV below.

The round table in Rome was attended by 11 stakeholders (policy makers, bankers, academics and international civil servants) and four FIRES researchers – a list of participants can be found in Annex I below. The presentation of the project and of the Reform Strategy for Italy by Professor Mark Sanders (Utrecht University; FIRES) was followed by a very fruitful discussion with the stakeholders (see Section 2 below).

The round table in Berlin was attended by 16 stakeholders (academics, representatives of business interests and bankers) plus several FIRES researchers – a list of participants can be found in Annex II below. Alongside the presentation of the reform agenda, by Professor Mark Sanders and Professor Michael Fritsch (Friedrich-Schiller-Universität Jena; FIRES), several other presentations were given, which were subsequently followed by debate (see Section 4 below).

The round table in London was attended by 22 stakeholders (academics, venture capital investors, entrepreneurs, government officials) three FIRES researchers – a list of participants can be found in Annex III below. The presentation of the project and of the Reform Strategy for the UK by Professor Mark Sanders was followed by a lively debate (see Section 6 below).

The last two round table discussions were part of the Final FIRES Conference that took place in Brussels on 25 May 2018. The first panel of discussants comprised academics whereas the second panel comprised policy makers (see Section 9 below). The conference was attended by more than 80 persons (EU institutions officials, government officials from the EU Member States, entrepreneurs and other business interests, academics, diplomats, etc.) – a list of participants can be found in Annex V below.

Following-up on the round table discussions, we contacted all the participants in the three country-specific round tables and requested that they complete a questionnaire concerning the reform strategies for Italy, Germany and the UK, respectively. The questionnaire consisted of closed questions to assess the preferences of the respondents and open questions to allow the respondents to add insights and suggestions in relation to the reform agenda. The questionnaires are included in this

report. We received 7 responses to the questionnaire concerning the reform strategy for Italy, 5 responses to the questionnaire concerning the reform strategy for Germany, and 7 responses to the questionnaire concerning the reform strategy for the UK. In this report we report on the responses of the individual respondents as well as provide a more general analysis across the respondents.

This report is structured as follows. In Section 2 we report on the Rome round table. In Section 3 we report on and analyze the responses to the questionnaire concerning the reform strategy for Italy. In Section 4 we report on the Berlin round table. In Section 5 we report on and analyze the responses to the questionnaire concerning the reform strategy for Germany. In Section 6 we report on the London round table. In Section 7 we report on and analyze the responses to the questionnaire concerning the reform strategy for the UK. In Section 8 we report on the Brussels roundtable on the reform agenda laid out in Deliverable 2.1.<sup>13</sup> In Section 9 we report on the final Brussels roundtable. Finally, in Section 10 we provide a brief summary and conclusions.

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<sup>13</sup> Ibid.

## 2. FIRES Reform Strategy for Italy - Report on the Entrepreneurship Policy Round Table (Rome, 5 March 2018)

**Venue:** *Cassa Depositi e Prestiti* (hereafter, CDP),<sup>14</sup> Rome, 1 Via Castelfidardo

A list of participants can be found in Annex I.

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After the introductory remarks given by Mr. Fabio Gallia (CDP), Ms. Antonella Baldino (CDP) and Professor Luca Grilli (Politecnico di Milano), respectively, Professor Mark Sanders (FIRES Coordinator, Utrecht University) presented the *FIRES Reform Strategy for Italy*.<sup>15</sup> The policy proposals for Italy are laid out in Annex II to this report.

Before introducing the 15 FIRES policy proposals for Italy, **Professor Mark Sanders** presented the FIRES project and its approach aimed at developing a reform strategy to promote the entrepreneurial society in Italy. In this presentation, he stressed the weaknesses of the Italian entrepreneurial ecosystem with respect to, for instance, human capital, networking, growth ambitions and opportunities to grow, as well as the lack of a sufficiently supportive culture. He further stressed that the regulatory uncertainty in Italy causes ‘sclerosis’ and that although SMEs and self-employment occur at high rates, market entry and exit are at low levels. He added that the entrepreneurial environment in Italy exhibited fear of failure and that there was too much focus of knowledge absorption to the detriment of experimentation. Subsequently, Professor Sanders presented the 15 policy proposals for Italy (see Table 1 below).

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<sup>14</sup> Investment bank majority owned by the Italian Ministry of Economy and Finance; host of the event.

<sup>15</sup> Sanders et al., n. 2 above.

**Table 1** Reform Strategy for Italy

#	Title	Proposal	Explanation	In Italy
1	<b><i>The Rule of Law</i></b>	We propose to further strengthen the current rule of law monitoring and enforcement mechanisms to ratchet up the performance of all Member States on issues related to rule of law, government effectiveness and protection of property rights.	Deficiencies in these factors negatively impact all agents in the entrepreneurial ecosystem and induce people to conduct activities and keep their capital in the shadow economy. Even the poorest EU member countries are higher medium-income countries, and neither the VoC literature nor arguments à la Rodrik (2008) provide any support for the view that these countries can compensate for these deficiencies through other institutional measures.	It takes too long to settle commercial disputes in civil cases. This creates uncertainty and works in the advantage of large, established and incumbent firms. An entrepreneurial society needs fast, predictable and clear legal proceedings to thrive. A lot has been done, but more is needed still.
2	<b><i>Taxation of Corporate Income</i></b>	The Union should strive to reduce and ideally remove the discrepancies in member countries between statutory and effective corporate income tax rates, which may result from tax-reducing depreciation rules, inventory valuation rules or other more ad hoc country- or industry-specific tax reductions.	Their removal would create transparency and contribute to levelling the playing field for all firms regardless of their size, age, industry or nationality. Competition among member states is good, but it should be competition on corporate tax rates and not on complex, opaque fiscal deals and schemes. Moreover, when it comes to corporate taxation, member states should treat all firms equally.	This general advice we would give to the Commission and would also apply to Italy. Founders in Italy complain about taxes but more than their level, their complexity and unpredictability makes growing a firm unattractive.
3	<b><i>Taxation of Dividends and Capital Gains</i></b>	Complexities should be removed when possible. Instead, countries should aim for dividend and capital gains tax rates with few exceptions and few (opaque) concessionary schemes.	Here, the Eastern European countries, such as Poland and Estonia, have exemplary models in which the tax rates are at reasonable levels and the effective tax rate is largely independent of other circumstances. Arguably, the reason for this clarity is that the design of these systems date back no further than 1989. A radical redesign from the ground up is probably not feasible in older member states, but they should nevertheless strive for similar improvements to simplicity and transparency.	See proposal 8. A tax system benefits from an occasional cleaning-up. Simplicity and transparency should be the goal, not necessarily reducing rates for targetted groups. But at an overall tax pressure of 64% against 40.8% in Europe, Italy should also reduce taxes.

<p>4</p>	<p><b>Private Wealth</b></p>	<p>Our proposal is that in regions where family ties are strong, there should be institutional arrangements that would promote lending from private funds especially from the family to ventures.</p>	<p>In FIRES-Deliverable 2.2 (Dilli and Westerhuis 2018) it was shown that these cross-national differences in family financing are result of the differences in extent to which individuals feel socially obliged towards their family members, shaped by the strength of family ties. These family ties are result of the historical family arrangements. As a result, the share of family financing is expected to be much higher in regions where traditionally the family group has priority over the individual (strong family ties), common in the Eastern European and the Mediterranean countries context compared to the North Western European countries where the individual and individual values have priority over family (weak family ties).</p>	<p>Italy has a strong family based tradition. This creates opportunities also for financing ventures, especially in their early stages. Italy could consider banking on extended family ties to increase the flow of financial resources into entrepreneurship. The Anglo-Saxon Angel and VC model may be less appropriate in the Italian context.</p>
<p>5</p>	<p><b>Banking</b></p>	<p>Increase the mandatory equity ratio in banking gradually to 10-15% to have more skin in the game and allow banks to take on more risk responsibly in their lending portfolios.</p>	<p>Given that European banks operated profitably at much higher equity ratios in the past whereas non-European banks continue to do so, this proposal only requires a sound implementation and transition strategy. Gradually building up the equity buffer while at the same time accumulating more publicly guaranteed SME-loans in the portfolio is a balanced approach. Higher required equity buffers will increase the price of credit and some might argue that this will reduce credit and investment in the aggregate. We feel, however, that such price increases will only drive out the marginal investment projects and most of these are currently found in the secondary, speculative investments that Bezemer (2014) deems unproductive.</p>	<p>Italy still has a rather diverse and locally embedded banking system. This can be an asset in the entrepreneurial society, but these small, local banks are increasingly brought under European rules and supervision made for large, system banks. By requiring higher equity in banks, they can justifiably engage in riskier but also in the long run more productive lending.</p>
<p>6</p>	<p><b>Employment protection legislation #1</b></p>	<p>CMEs can provide a model for MMEs, which show</p>	<p>Less regulation on permanent employment is likely to be linked with high-growth aspirations</p>	<p>Italy has already implemented some fundamental reforms in the labour market in recent years. In part this</p>

		<p>more similarities to CMEs in many respects than LMEs.</p>	<p>among entrepreneurs particularly in the Mediterranean Market Economies (MMEs) whereas no change is observed in the other institutional constellations. Given that Coordinated Market Economies (CMEs) are shown to perform rather well in innovative entrepreneurial activity, while being characterized by moderately liberal labor market institutions, centralized wage setting institutions and high levels of social security. We therefore conclude that a policy of radical liberalisation following the Liberal Market</p>	<p>was done under pressure of the financial and eurocrisis and external creditors. The general direction of these reforms was right, but Italy should not forget that of the MMEs it is actually closest to the CMEs and should seek to combine flexibility with social security.</p>
<p>7</p>	<p><b>Employment Protection Legislation #2</b></p>	<p>Establish or strengthen training programs to prepare workers for new occupations</p>	<p>Archanskaia et al. (2017) show that countries with a low rate of substitution between inputs in routine production, will not be able to gain a comparative advantage in high-value products that are intensive in non-routine tasks. As a result, they will end up specializing more and more in routine-intensive products and experience lower wage growth. Geurts and Van Biesebroeck (2016) further show that the pattern of firm-growth in Belgium indicates that young firms under-adjust to good news. As a result, many promising firms scale up too slowly and they might miss out on opportunities in a fast-paced global market.</p>	<p>In a more flexible labour market, more flexible and mobile employees are key. Italy will not be isolated from technological and economic trends and flexibility is needed to engage opportunities and exit declining jobs, industries and trades. We propose Italy invests in the flexibility of its workforce.</p>
<p>8</p>	<p><b>Confidentiality Agreements and Barriers to Mobility</b></p>	<p>To promote the mobility of people and their knowledge across firms, we propose to lift the legal enforceability of confidentiality agreements between employers and their employees.</p>	<p>Of course, there can be justified instances in which confidentiality is needed to protect the legitimate interests and privacy of customers, but confidentiality agreements and especially non-compete clauses are more often used to prevent knowledge from flowing freely between firms and sectors.</p>	<p>Specifically for Italy, this proposal should be understood in light of the two above, arguing for investment in mobility and reducing barriers for switching jobs, industries and occupations. This will create opportunities for the young and talented to remain actively engaged in Italy and reduce the brain drain to the rest of Europe. Specifically the "reinstatement" provision in employment protection is often mentioned as a burden on small and young firms.</p>

9	<b>Social Insurance Systems</b>	Embracing the principles of flexicurity, we propose to carefully consider the impacts of reforms on young SMEs and not force them to take on high risks and burdens.	The general guiding principles the European Commission have formulated do not include structural and careful attention to what such reforms would mean for start-ups and young SMEs. While the specifics can and will vary country by country, we can infer that an important component of a policy that makes society more innovative and entrepreneurial involves making the individual's social insurances as portable as possible when changing jobs and moving between salaried employment and self-employment.	It is tempting for governments with tight budgets to have employers pick up the bill for their employees' social security. This, however, tends to reduce mobility and strengthens the insider-outsider effect. On the labour demand side, such schemes work in (relative) favour of large firms and blocks young firms expanding. This keeps youth unemployment up and pushes also educated Italian youngsters to leave.
10	<b>Product Market Regulation</b>	Excessive barriers to new business formation and new entry should be lifted where possible.	This, however, seems to be part and parcel of the EU policy agenda already. Our consortium supports that effort with the caveat that well justified barriers to entry are useful to keep unproductive or even destructive ventures out (Stenholm et al. 2013; Darnihamedani et al. 2018). It should be easy for challengers to enter (and exit) but these challengers should be serious.	Key in this proposal is "excessive". Founders in Italy report quite a wide variety of bureaucratic and administrative barriers to starting up a venture in Italy. Some of these barriers may serve a valid purpose, but simplicity, transparency and predictability are then required also. Data shows Italian SMEs spend 52% more time dealing with bureaucracy than their European competitors and WEF ranks Italy 44th on doing business index. There is a lot of room for improvement.
11	<b>Knowledge Diffusion after Failure</b>	We propose to set up publicly funded "entrepreneurial knowledge observatories" where knowledge accumulated in the entrepreneurial process is collected, curated and freely diffused.	Our consortium agreed that a lot of useful knowledge, perhaps of a more applied and tacit nature, is generated in the entrepreneurial process, particularly when ventures fail. That knowledge is lost when entrepreneurs do not share their experiences. However, as that is not their core business and private incentives are absent, it makes sense to publicly fund the collection, curation and diffusion of that knowledge.	Creating a real hub, rich in events, infrastructure, and networking between teams could be useful for the Italian Startup Ecosystem. This involves concentration. Today Milan (14,7%), Rome (8,5%) and Turin (4,7%) have less than 30% of the total number of startups (and these data are flattered). Our research has shown how geographical proximity is important for success. It is a tough choice, but it would be useful to invest in a start-up capital (Milan) with a national function.
12	<b>Knowledge Generation</b>	Both the EU and its member states should create healthy, well-	In the literature, there is also broad consensus that basic research is a pure public good (Salter and Martin	For the Italian context it is important to open up its academic institutions. Many reforms have already been

		<p>funded, academic institutions that allow Europe's best and brightest to pursue their research interests.</p>	<p>1991; Pavitt 1991). It therefore makes perfect sense to channel more of the EU budgets to an activity that provides such evident positive spillovers throughout the Union.</p>	<p>undertaken, but most in a time of ageing, financial constraints and budget cuts. With vested interests and gilded contracts hard to reform, the rate at which Italian academic institutions open up for competition and meritocracy is slow. It makes little sense to spend a lot of money on institutions before such structural issues have been addressed. Unfortunately the (poor) students, not the ageing staff is driven out.</p>
<p><b>13</b></p>	<p><b><i>Creativity in primary and secondary education</i></b></p>	<p>Push for reforms in primary and secondary education that promote creativity, a willingness to experiment, a tolerance of failure and out-of-the-box thinking.</p>	<p>More appreciation for creativity (and therefore tolerance of deviant behaviour) will probably shift the balance from business oriented to more creative entrepreneurship. Evidence from field experiments (Weitzel et al. 2010; Urbig et al. 2012) and in the FIRES-project (Lauritzen et al. 2017) suggest that creative entrepreneurs are more socially oriented than strictly business-oriented entrepreneurs. Promoting creativity in primary and secondary education, to the extent possible, is therefore a long-term strategy to promote productive entrepreneurship that will create innovative, sustainable and inclusive growth (Stam et al. 2012).</p>	<p>Italy's educational system can be characterised as traditional. The State sets the curriculum, provides uniform tests and most children attend public schools. The curriculum is demanding, geared towards cognitive skills and textbook based, leaving little room for creativity and diversity. Italy considers its educational system of high quality, but making pupils work hard is not the same as teaching them useful skills. Countries ranking high on e.g. the WEF, OECD and EU rankings, such as Finland and Norway have less homework and formal testing and more autonomy for highly trained and well paid professionals.</p>
<p><b>14</b></p>	<p><b><i>Education in the Entrepreneurial Society</i></b></p>	<p>To promote the integration of Europe's knowledge base we propose to make English the (mandatory) second language and promote its instruction in primary and secondary education systems throughout the European Union.</p>	<p>We would like to stress, however, that we do not see this as part of building a European identity or culture. Rather, as a tool to enable citizens in the Union, and in particular those that end up in business and/or science, to exchange knowledge efficiently and effectively. Effective communication requires a common language and English qualifies as the Lingua Franca of modern science in most academic disciplines as well as global business.</p>	<p>Italy ranks 20 out of 27 EU countries plus Turkey when it comes to knowledge of English as second language. This is a handicap when Italy seeks to compete at the EU or global level.</p>

<b>15</b>	<b>Education in the Entrepreneurial Society</b>	We propose to educate the young and bright minds of Europe how to be more entrepreneurial before they make their career choices.	Recognizing the importance of this European model of knowledge diffusion, European universities can take a larger role in the transition to a more Entrepreneurial Society in Europe. This starts with simple no-regret policies that have been proposed before (i.e. the European Commission's Entrepreneurship 2020 Action Plan).	Many universities started offering courses focused on startups. Courses usually taught by a researcher with no work experience outside academia, and clearly no past in startups. With the average curriculum dealing with business plans and how to get financing. We lack a startup culture and those trying to provide it have no idea what they are talking about. We are still in the phase where everyone is teaching and few doing.
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Following Professor Sanders' presentation, Professor Grilli, who moderated the discussions, opened the floor for the participants to comment on the proposed reforms. In giving their comments, the participants were asked to answer the following guiding questions:

- Would you agree with our approach?
- Would you agree with our diagnosis?
- Would you agree with the proposed treatment?
- Which proposal(s) would you support and endorse, and, conversely, which one (if any) would you disregard?
- Are there any other policy proposals that you would recommend for inclusion in the FIRES Reform Strategy for Italy?
- Are the FIRES policy proposals politically feasible? Are they easily implementable or not? Do you see any difficulties or obstacles of any sort, and in particular political obstacles, to implementing the proposed recommendation(s)?

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**A CDP employee** took the floor and explained that venture capital (VC) was not equivalent to innovation. Similarly, start-ups and new entrepreneurship eco-systems were also not equivalent to VC. However, the development of the VC sector can be used as a proxy. He further explained that CDP, as a lender and investor, has a growing interest in VC and innovation. Moreover, the activities of CDP are related to one of the FIRES ideas, and that is, 'what can the banking system do for financing

innovation?' In fact, CPD can be used as an example of how to involve the banking system in financing innovation.

In his view, private capital plays an important role in supporting competitiveness via supporting new entrepreneurship. VC and private equity, and in any case private capital, are important for fostering competitiveness. As shown by a study highlighting the importance of private capital, VC-backed SME start-ups grow more consistently than non-VC-backed firms. Moreover, VC markets are quickly developing in Europe, which is becoming a more and more interesting VC ecosystem. The prevailing understanding in Brussels and Luxembourg is that every good idea gets funded now in Europe. However, he does not entirely share this view, at least not from the Italian perspective. Although there is some movement in the Italian VC markets, developments are very slow. In connection to this, he confirmed that there were also some cultural issues, as mentioned in the FIRES policy brief for Italy.<sup>16</sup>

While there is a lot of focus in Italy on supporting SMEs, there is not that much concern with supporting start-ups and new entrepreneurship. He further explained that in Italy not all good ideas get funded, as the market for financing start-ups was absolutely trivial. In 2017, according to preliminary numbers, less than 200 new ventures were financed in Italy. Furthermore, Italy does not fare well in comparison with other European major economies. Unsurprisingly, UK, France and Germany are doing the best, with UK leading the group. However, Spain, which started from the same conditions as Italy, has a market that is 6-7 times bigger than Italy's. Although being a relatively big economy, Italy is absolutely underdeveloped in terms of financing new entrepreneurship. To illustrate, consider that in the US VC investments in new firms reach 250\$ per capita. In stark contrast, in Italy such investments are at less than 1\$ per capita. It should be mentioned, nonetheless, that Europe overall is under-developed in this respect, compared to global innovation hubs such as US and China.

Furthermore, Italy is in a good position in terms of 'making research for knowledge'. However, 'making research for the market is absolutely' under-developed. While Italians are well educated, education is not primarily concerned with serving the market. Academics traditionally had two missions: the first was to educate, and the second was to conduct research. Recently a third mission was added: creating products and services for society, *i.e.* services to society which include fostering entrepreneurship. Italy

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<sup>16</sup> Sanders et al., n. 2 above.

is also doing well in terms of research output (measured by number of research papers, frequency of citation, etc.), but it is laggard when it comes to financing innovation. He clarified that the size of the VC market and the financing of innovation are not equivalent to innovation, but the availability of funding is the best proxy we can use to find a way for fixing the problem.

Additionally, Italy is one the world's leading manufacturing countries. Manufacturing output accounts for a big share of GDP in Ital. In this respect, Italy is above France, and at the same level as Japan, Germany or even US. This means that Italy has firms and factories in which new technologies and ideas can be easily applied.

He acknowledged that, from a policy perspective, much has been done in recent years in order to make Italy a more competitive environment to stimulate new ventures – *e.g.*, regarding taxation, the ease of starting a new business, carve-outs from certain bankruptcy rules. Nevertheless, some problems persist. For instance, the VC sector is lacking a significant number of professionals. Moreover, investors don't feel entirely comfortable with investing in new firms because they prefer less risky assets. In Italy, the convenient treasury bond remains the most widely used asset class. Investors prefer such assets and even real estate.

As for areas not covered by the FIRES reform strategy for Italy, public procurement is something that is perhaps missing from the well-structured FIRES strategy. Public procurement is the second most relevant budget contributing to wealth in Italy. If entities subject to public procurement rules are not incentivized to purchase innovative supplies from start-ups, this is limiting the growth opportunities of such firms. In Italy, procurement laws hinder procurement from new firms. For instance, in order to be eligible to participate in tender procedures, firms need to submit three financial reports and prove that they have a good track record. This is limiting the ways in which you can stimulate new firms.

He also acknowledged that Italy could not become a new Silicon Valley. One problem is that Italy is very fragmented in the sense that it has mini-hubs of excellence that do not reach the necessary scale. Italy has more than 100 reputable public academic institutions and many industrial clusters. Therefore, it is difficult to reach the requisite scale to compete with global innovation hubs such as San Francisco, Tel Aviv or Shenzhen. This is typical of the fragmented value-added system in Italy. He added that much has been done in the regulatory context as well, but reforms are slow. For example, in comparison to

France, in Italy it takes long to be authorized as a new fund manager. He further noted that European financial markets are fragmented, and that Europe is not as much a uniform real market as we are inclined to think. He also explained that CDP was trying to build investment schemes to address all of the aspects of the equity gaps in Italy, including the specific gaps in the financial markets devoted to promoting innovation. CDP develops such schemes both on its own but also in cooperation with European partners – e.g. European investment funds. Finally, he noted that an appropriate approach to networking was lacking in Italy. This was also highlighted in the FIRES policy brief. In his view, an adequate approach to networking is a key enabling factor. In connection to this, he mentioned a CDP project aimed at promoting an Italian innovation hub in San Francisco by means of ensuring a physical presence there.

**A government official** observed that in Italy there was a problem with the governance of innovation in terms of, for instance, the sociability of innovation issues to certain institutions, meaning that the governance of this phenomenon is scattered throughout many institutions/government bodies, which sometimes makes it difficult to determine which institution/government body is competent to act. To illustrate, the governance of education is shared between the Ministry of Education, Research and Universities and the Ministry of Economic Development. This clearly illustrates the importance of fostering coherence in government policies to foster entrepreneurship. He acknowledged, nonetheless, that both institutions have been doing a lot in the last few years to support this phenomenon. However, the legal tools to intervene and do more are sometimes missing.

A related problem is the issue of university spin-off definition. The fact that each university in Italy has a different legal notion of university spin-off, with different qualification requirements for benefiting from the different advantages linked to this status, is problematic. Certainly, more clarity and harmonization is needed. Another problem related to the governance of innovation is the poor quality of the public administration. According to an OECD report (dated 2016 or 2017), Italy has the highest average age for civil servants (*i.e.*, 55). Although age is not a problem *per se*, inter-generational contributions could be useful, especially when it comes to phenomena that are at the forefront of innovation. It surely helps being digitally native and understanding new technologies, like block-chain. The lack of young people in the public administration is also a cause for sub-optimal communication with stakeholders.

He further explained that the Italian Ministry of Economic Development has been doing a wealth of things to support start-ups in Italy. For instance, it established a free online platform for incorporating new companies. Nevertheless, it remains difficult to make people aware of these new developments when you do not have sufficient expertise within the existing institutions.

He expressed agreement with the previous speaker on the need to address public procurement, which is missing from the FIRES agenda. In his view, there are no legal impediments for the Italian public administration, either at central or regional level, to buy goods and services from innovative start-ups. At least in theory, the relevant regulations permit public procurement for innovation. However, in practice, requests for tenders are done in a way that makes it impossible for newly established businesses to participate and win the tender. Hence, the problem does not consist of a legal impediment, but the real issue is the lack of political willingness.

In his opinion, some moral suasion from the government would also be useful. He illustrated his argument by recounting an anecdote according to which France's President Emmanuel Macron picked up the phone, called entrepreneurs and advised them to invest in newly established high-tech businesses. Such an approach is lacking in Italy, despite its importance.

He then observed that there were many cash negative tenders in Italy whereby selected companies get public funding only after they had already made the investment; that is, they get reimbursed for their investment. The problem with such a tool is that only the people who already have the money can become entrepreneurs.

Furthermore, he made the point that R&D was underfunded in Italy. Not exceeding 1.2% of GDP, Italian R&D expenditure is below both European targets (3%) and European national averages (2 to 3%). For instance, PhD scholarships have been cut by 50% over the last 10 years. Investing more in universities is something that Italy definitely needs to start doing.

In response to his remarks concerning public procurement, **Professor Mark Sanders (FIRES)** observed that in a democratic system elected politicians do not want to take the risk to procure from small and medium-sized firms and spend money on a failed project. It is not enough to make it legally possible to procure from SMEs, rather public entities must be forced to do so.

**An academic and international civil servant** also intervened on this point and remarked that the issue of procurement from new and/or small firms had been discussed for years at the OECD and in the EU's institutions. Reportedly, the European Commission repeatedly took the position that allocating a quota to a certain category of suppliers would breach EU competition law.

**Professor Erik Stam (FIRES)** also took the floor on this point and responded that this was a legal argument used for political purposes, and that, in fact, there were many exclusions from EU competition law – for instance measures aimed at fostering innovation or providing stimuli for SMEs. In support of his argument, he cited a study in the context of which it had been shown that EU Member States were not being prosecuted under EU competition law for measures supporting innovation policies. Therefore, EU competition law was not a legal impediment.

**An academic and international civil servant** took the floor and expressed the critical view that the focus of the FIRES strategy for Italy was not clear at all and there was a 'kind of blurring of the lines, in the way the strategy for Italy has been presented'. In his opinion, a project that focuses on entrepreneurship must start from some sort of a notion of entrepreneurship, as entrepreneurship does not cover only innovation but rather a big domain. What is relevant in this context, is the age of the enterprise, first; and second, the independence of the enterprise from a larger company. He stressed the fact that there was a huge number of SMEs that were controlled by large companies. Therefore, he believed that there was 'a mix-up of everything' in the FIRES strategy for Italy. In his view, a number of the proposals do not fit the category of entrepreneurship stated in the title. Moreover, the policy proposals do not fit the Italian case. Furthermore, he was under the impression that the FIRES researchers were not aware of the latest measures taken by the Italian government in the past 3-4 years. He added that the proposals were either obsolete – that is, the recommended course of action had already been taken – or are of little relevance. An example of a recommendation bearing little relevance was the one concerning the reduction of corporate taxation. He explained that a small company that is 1-2 years old can hardly make a profit so reducing taxes is not an issue. He further opined that the proposed strategy had many weaknesses. In his view, such a research project should start from a clear definition of the focus of the study and the strategy put forward should propose something new. He added that he found difficult to identify elements of novelty in the proposed strategy, aside from its regional dimension.

He further noted that entrepreneurial society also means intrapreneurship, meaning that even large companies can have an entrepreneurial attitude. He then asked the FIRES researchers present whether they would advance the same recommendations for start-ups as for intrapreneurial large firms. He was of the view that a distinction needed to be drawn between dealing with a new would-be entrepreneur and a large company that can provide innovative persons with the requisite kind of support without support from the government. He cautioned that maintaining a broad approach carries the risk of missing the target. He further added that in order to be able to make meaningful proposals, a number of distinctions, including by economic sectors, needed to be made, as starting a software company, for instance, is not the same as starting a manufacturing company in sectors like chemicals or metal working.

**A government official** stated her agreement with the last point made by the previous speaker. She stressed that it was very important to be more specific. She then observed that in recent years in Italy, certain tax benefits had been implemented, which lead to increased private investments in start-ups. According to available data, there were around 9000 innovative start-ups in Italy. Although it is difficult to compare this number with data from other countries, France and Germany have twice as many innovative start-ups. She further observed that the particular category of innovative start-ups were small and tended to be financed by business angels rather than by VC. Even though there are indications that they are growing, they are not growing as much as in other countries. The big issue on which she wanted to focus her intervention was scale-up. Although data concerning the matter is scarce, a recent report focusing on ICT scale-ups showed that in Italy there were only 100 ICT scale-ups as compared to 500 in France and Germany, and the gap was enlarging. She added that capital was needed in order to allow start-ups to make the jump and reach a larger scale, and that start-ups financed by business angels were not growing enough. She then stressed that future policy proposals need to focus on this, as the best start-ups move abroad because they cannot access finance in Italy. That is surely a net loss for Italy.

She further noted that a first fund of funds for scale-ups was created in Italy, but that more was needed. She explained that there were large amounts of available public funds at regional level that could be invested either directly in start-ups, or indirectly through co-investment. For 2016, the estimated relevant figure was 500 million €, which is a huge amount of money. Additionally, there are 3 billion € in European regional funds for Italian regions to access it. Hence, there are important

amounts of money available that can be used at the regional level. She stressed that this was an issue that the FIRES researchers should try to address.

As for the specific FIRES policy recommendations, she expressed the view that the first proposal [on the rule of law] is crucial. Innovative start-ups normally fail at a higher rate, so legal procedures are needed that are effective and quick. This is not the case in Italy. Furthermore, this is one of the reasons why foreign investors are not so eager to invest in Italian start-ups. Although progress has been made recently in this regard, much remains to be done. Finally, she cautioned that bank loans are not the most suitable form of finance for innovative start-ups.

The previous speaker intervened and stated his full endorsement of this last remark and explained that equity investments supported by public funds are needed for financing innovative start-ups, rather than bank loans.

**An international civil servant** took the floor and stated that she had found the policy brief to be interesting. She particularly appreciated the effort of not looking at entrepreneurship only through the perspective of start-ups, but rather studying it at a more systemic level, including the regional dimension and regional disparities. Furthermore, she suggested that the proposals for Italy be structured into two main blocks. The first block would include the first 10 recommendations (up to recommendation no. 40 concerning product market regulation), which are all institutional reforms that are clearly needed, and which are also quite contextualized. The recommendations following recommendation no. 40 would make up the second block, which are not institutional reforms, but rather concern what should be done to bring about a more entrepreneurial mind-set in Italy. Although the recommendation concerning knowledge diffusion after failure is very important, she was surprised to see this recommendation as the first one in the second block. She explained that she had attended events where entrepreneurs share with other entrepreneurs or would-be entrepreneurs their experience with failed businesses. At such events the entrepreneurs present the business case and the participants try to guess why the business failed before the presenter discloses the cause of failure. Although she finds such events to be very useful, she would not start from there.

She then observed that Entrepreneurial Knowledge Observatories are important, and that such establishments could look not only at failures but also success stories and role models. As for the

recommendations concerning universities, she found them to be very relevant. Although universities are certainly important for enhancing entrepreneurial skills, she stressed that municipalities are also very important, as they can contribute by creating co-working spaces, or by organizing innovation weeks and start-up weekends.

Moving to the recommendation concerning creative entrepreneurship and primary [and secondary] education (see recommendation no. 55 concerning 'creativity in primary and secondary education'), she expressed the view that this recommendation is of key importance and that it should be highlighted. Nonetheless, the social orientation element was missing from this recommendation, despite having been in the main text of the policy brief. In her view, plenty could be done in primary school on creative entrepreneurship and social orientation. In connection to this matter, she shared the fact that she had just returned from Ecuador where she had attended the 'Entrepreneurial Olympic Games for School Children', focusing on entrepreneurial innovation and the United Nation's Sustainable Development Goals.

She also expressed support for the recommendation concerning education for an entrepreneurial society and knowledge of English (see recommendation no. 57 concerning 'education in the entrepreneurial society' and proposing to make English a mandatory second language of instruction).

Finally, she concluded by remarking that Italy has extraordinary entrepreneurs that are sometimes not well integrated into an innovation system, but also extraordinary innovation and industrial capacity that loses touch with the entrepreneurial start-up capacity.

**A government official** took the floor and made the preliminary clarification that in his comments he would look at the problem from the perspective of the financial markets supervisor. As a general comment, he stated his agreement with the main analysis of the FIRES report concerning Italy. He then added that the underdevelopment of innovative entrepreneurship in Italy is not related to technology but to the human factor, that is, both the entrepreneurs and the workforce. The lack of business and entrepreneurial culture is a problem, so investment in education is really important. He further stated that the Italian Companies and Exchange Commission (hereafter, CONSOB) was strongly committed to financial education and the number and importance of initiatives in this area are growing at very high rate, thanks also to the Italian government and parliament. Nonetheless, more networking is needed.

Therefore, he expressed strong support for the recommendations on knowledge diffusion (see recommendation 45 on 'knowledge diffusion after failure') and knowledge creation (see recommendation 48 on 'knowledge generation'). He also expressed support for the point made the previous speaker that not only knowledge diffusion after failure is needed but also knowledge diffusion after success.

Furthermore, he suggested that the public sector should not only facilitate the exchange of experience between firm founders but should also do something to increase the transparency of financial information on non-listed companies and SMEs in general, as there is a lack of private financial research on this matter. As this qualifies as a sort of market failure, there is a role for the public sector to play in this area, for instance, by collecting on a voluntary basis the firms' financial data and present it to investors. As it is not profitable to conduct such an exercise, nobody is doing it in the private section with the result that such data is missing.

He added that regulatory complexity and compliance difficulties are another problem affecting Italy. Based on the survey conducted by the FIRES researchers with Italian entrepreneurs, this represents the first ranking problem. He explained that CONSOB has been working a lot during the past few years on both regulatory simplification and on clarifying its approach to market supervision, the latter perhaps being more important than the legislation itself. The continuous change of legislation at both European and national level was problematic, as market actors have to deal with multi-level legislation which is very difficult to understand. In his view, a low-cost solution to the problem would be to explain in a clear and simple way the rules that are in force, presenting them in a comprehensive framework. In order to do this, a strong commitment is needed, from European and national institutions, that they would assemble the various legislative instruments into codes. Currently, there is no systematic approach to legislation. For instance, an EU regulation often addresses just one matter. Hence, market actors miss a comprehensive picture of all the relevant legal frameworks. Understanding the language used in legislation also constitutes a problem that could be alleviated by preparing explanatory notes to the relevant laws and regulations. Such explanatory notes would be worded in clear language and would include examples and description of best practices.

Finally, he expressed agreement with what stated in the policy brief with regard to the family based-capitalism prevailing in Italy, as it is common for companies to have concentrated ownership with family controlling shareholders.

**A CDP employee** shared the fact that that very morning she had compared the electoral programmes of all Italian parties [general elections had taken place in Italy the previous day] with the FIRES recommendations for Italy. Unfortunately, she found very few points in support of entrepreneurship in the analyzed electoral programmes. She further observed that there is plenty of available capital for financing innovation, but that the problem is that institutional investors fear risky investments. With regard to investments made by pension funds, she noted that account must be taken of the fact that these institutions need stable returns to meet their needs, for instance, in order to be able to pay pensions. Nonetheless, some pension funds are starting to think that investing in VC is a key strategy for growth. Following Professor Luca Grilli's (FIRES) observation that the legislation governing pension funds had changed in 2016 allowing pension funds to invest in VC, she clarified that pension funds were now allowed to invest 5% of their assets and that some categories of funds could even invest in start-ups.

### 3. Questionnaire Concerning the FIRES Reform Strategy for Italy

In the days following the policy roundtable we contacted via e-mail all stakeholders who participated in the Rome event,<sup>17</sup> plus two other officials from the Italian Ministry of Economic Development and asked them to complete a questionnaire concerning the 15 FIRES policy reforms for Italy (see Table 1 above). More specifically, we requested that they answer the 6 questions below:

- 1. Please rank the three proposals that are in your opinion the most important ones by assigning them numbers from 1 to 3, with 3 being the most important and 1 the least important. Please insert the numbers in the boxes preceding the title of the proposals.***

*The rule of law*

*Social insurance systems*

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<sup>17</sup> Except for the FIRES researchers who attended the round table.

- |   |   |
|---|---|
| <input type="checkbox"/> <i>Taxation of corporate income</i>                        | <input type="checkbox"/> <i>Product Market Regulation</i>                     |
| <input type="checkbox"/> <i>Taxation of dividends and capital gains</i>             | <input type="checkbox"/> <i>Knowledge diffusion after failure</i>             |
| <input type="checkbox"/> <i>Private wealth</i>                                      | <input type="checkbox"/> <i>Knowledge generation</i>                          |
| <input type="checkbox"/> <i>Banking</i>   | <input type="checkbox"/> <i>Creativity in primary and secondary education</i> |
| <input type="checkbox"/> <i>Employment protection legislation # 1</i>               | <input type="checkbox"/> <i>Education in the entrepreneurial society</i>      |
| <input type="checkbox"/> <i>Employment protection legislation # 2</i>               | <input type="checkbox"/> <i>Universities</i>                                  |
| <input type="checkbox"/> <i>Confidentiality agreements and barriers to mobility</i> |   |

**2. Do you consider the implementation of the three proposals you have chosen to be politically feasible? Please check only one box.**

**Yes for all three**

**No for all three**

**No for two of them. Indicate which ones:**

**No for one of them. Indicate which one:**

**3. If you consider the implementation of any of the proposals you have chosen to be politically unfeasible, please indicate the title of the proposal(s) in the box below and explain why you think the implementation would be unfeasible.**

4. Please rank the three proposals that are in your opinion the least important ones by assigning them numbers from 1 to 3, with 1 being the least important. Please insert the numbers in the boxes preceding the title of the proposals.

- |   |   |
|---|---|
| <input type="checkbox"/> <i>The rule of law</i>                                     | <input type="checkbox"/> <i>Social insurance systems</i>                      |
| <input type="checkbox"/> <i>Taxation of corporate income</i>                        | <input type="checkbox"/> <i>Product Market Regulation</i>                     |
| <input type="checkbox"/> <i>Taxation of dividends and capital gains</i>             | <input type="checkbox"/> <i>Knowledge diffusion after failure</i>             |
| <input type="checkbox"/> <i>Private wealth</i>                                      | <input type="checkbox"/> <i>Knowledge generation</i>                          |
| <input type="checkbox"/> <i>Banking</i>   | <input type="checkbox"/> <i>Creativity in primary and secondary education</i> |
| <input type="checkbox"/> <i>Employment protection legislation # 1</i>               | <input type="checkbox"/> <i>Education in the entrepreneurial society</i>      |
| <input type="checkbox"/> <i>Employment protection legislation # 2</i>               | <input type="checkbox"/> <i>Universities</i>                                  |
| <input type="checkbox"/> <i>Confidentiality agreements and barriers to mobility</i> |   |

5. What is your general assessment of the reform package? (please check only one box)

- |                            |                            |                            |                            |                            |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 |
| <hr/>                      |                            |                            |                            |                            |
| <i>Useless</i>             |                            |                            |                            | <i>Very useful</i>         |

6. Other comments, if any

In total 7 persons completed questionnaire. Their responses are detailed below.

**Respondent 1** identified the proposals concerning the following three areas as being the most important ones (question 1): ‘the rule of law’ (most important); ‘knowledge generation’ (second most important); and ‘education in the entrepreneurial society’ (third most important). However, the respondent was of the view the implementation of none of them was politically possible (question 2). He explained his position in the following terms (question 3):

As far as the “Education in an entrepreneurial society” proposal is concerned, in spite of long-alleged willingness to promote the study of English (jointly with informatics and entrepreneurship, which was a typical education-related slogan under Berlusconi’s Governments) in primary and secondary education, Italians are still largely monolingual; more importantly, the Italian media contribute significantly to a self-referential mentality, e.g. foreign politics and news from the world in a broader sense are residual. The rule of law is weakened by corporative resistance offered by a large number of incumbent categories, ranging from established business associations to notaries. Knowledge creation within universities is endangered by an ever-increasing political vision that diminishes the role of public institutions, including in education (e.g. public funding for PhD scholarships have been reduced by half in the last ten years, whereas the Italian Ministry of Education is focusing on primary and secondary education).

As for the three least important proposals, Respondent 1 chose the following (question 4): ‘product market regulation’ (least important); ‘confidentiality agreements and barriers to mobility’ (second least important); and ‘taxation of dividends and capital gains’ (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for Italy (question 5), Respondent 1 selected ‘3’.

Finally, Respondent 1 provided us with the following ‘other comments’ concerning the Reform Strategy for Italy (question 6):

Innovation cannot happen systematically throughout Italian public administration. This is a crucial point that is missing in your work. You cannot ask to a public administration to spur innovation under the following circumstances: a) the share of central government employees below the age of 35 is just 2.2%. This is the lowest among developed countries – by far. The average rate hovers around 20% (see OECD’s Government at a Glance 2017); b) the equivalent ratio for over-55 employees is 45%, exceeding by far all other countries surveyed. This has increased dramatically since 2010, when no more than 30% of government workers were in this category; c) according to Eurispes (September 2012), just 40% of Italian civil servants hold a university degree. These figures reflect an almost complete absence of turnover in employees in the last decade. No personnel turnover also means no skill turnover and no intergenerational exchange. Shutting out of the public service a generation that is digitally native (and international by default) is not just profoundly unfair: it also makes it extremely difficult to keep up with technological advances (and globalization) and user expectations. Hiring young people here and there as fillers or ornaments is not enough. Politics should be taking care of this. This is not simply a matter of hiring more young people in government, regardless of their capabilities and the tasks they will be allocated to – a mistake that was made in the past, and that should not be repeated. It means a profound reconsideration of what public service is meant to be, what it does, and how it should be done. And it

means not being afraid to initiate truly ambitious reforms, and to devote to them sufficient financial resources, adequate and motivated personnel, and enough time.

\*

**Respondent 2** identified the proposals concerning the following three areas as being the most important ones (question 1): ‘knowledge generation’ (most important); ‘education in the entrepreneurial society’ (second most important); and ‘creativity in primary and secondary education’ (third most important). The respondent was of the view that the implementation of all three proposals was politically feasible (questions 2 and 3).

As for the three least important proposals, Respondent 2 chose the following (question 4): ‘banking’ (least important); ‘employment protection legislation #1’ (second least important); and ‘confidentiality agreements and barriers to mobility’ (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for Italy (question 5), Respondent 2 selected ‘5’.

Respondent 2 made no ‘other comments’ (question 6).

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**Respondent 3** identified the proposals concerning the following three areas as being the most important ones (question 1): ‘education in the entrepreneurial society’ (most important); ‘product market regulation’ (second most important); and ‘knowledge diffusion after failure’ (third most important). The respondent was of the view that the implementation of all three proposals was politically feasible (questions 2 and 3).

As for the three least important proposals, Respondent 3 chose the following (question 4): ‘private wealth’ (least important); ‘social insurance systems’ (second least important); and ‘employment protection legislation #1’ (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for Italy (question 5), Respondent 3 selected ‘2’.

Finally, Respondent 3 offered us the following ‘other comments’ concerning the Reform Strategy for Italy (question 6):

There is a large gap between the identified areas for reform and the proposals for Italy. In most areas, different reform proposals are needed.

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**Respondent 4** identified the proposals concerning the following three areas as being the most important ones (question 1): ‘knowledge generation’ (most important); ‘creativity in primary and secondary education’ (second most important); and ‘universities’ (third most important). The respondent was of the view that the implementation of all three proposals was politically feasible (questions 2 and 3).

As for the three least important proposals, Respondent 4 chose the following (question 4): ‘knowledge diffusion after failure’ (least important); ‘private wealth’ (second least important); and ‘confidentiality agreements and barriers to mobility’ (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for Italy (question 5), Respondent 4 selected ‘3’.

Finally, Respondent 4 offered us the following ‘other comments’ concerning the Reform Strategy for Italy (question 6):

The suggested regulatory reforms are all key but very much known. The others are not presented together as a novelty, as an integrated strategy for promoting the entrepreneurial culture in the Italian society

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**Respondent 5** identified the proposals concerning the following three areas as being the most important ones (question 1): ‘employment protection legislation #1’ (most important); ‘product market regulation’ (second most important); and ‘the rule of law’ (third most important). The respondent was of the view that the implementation of two of the three proposals was not politically feasible, *i.e.*, ‘the rule of law’ and ‘employment protection legislation #1’. He offered the following explanation (questions 2 and 3):

From our experience at [name of employer deleted], we believe that a reasonably ambitious reform agenda and painstaking effort may truly facilitate access to market for start-ups offering innovative business models. Conversely, a civil law overhaul and a reinvention of the Italian welfare system are objectives that are especially difficult to achieve satisfactorily in the current political and economic situation.

As for the three least important proposals, Respondent 5 chose the following (question 4): ‘knowledge diffusion after failure’ (least important); ‘taxation of dividends and capital gains’ (second least important); and ‘creativity in primary and secondary education’ (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for Italy (question 5), Respondent 5 selected ‘4’.

Respondent 5 made no ‘other comments’ (question 6).

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**Respondent 6** identified the proposals concerning the following three areas as being the most important ones (question 1): ‘knowledge generation’ (most important); ‘employment protection legislation #1’ (second most important); and ‘product market regulation’ (third most important). The respondent was of the view that the implementation of two of the three proposals was not politically feasible: *i.e.*, ‘employment protection legislation #1’ and ‘knowledge generation’(question 2). She explained her position in the following terms (question 3):

In the current economic and political situation, I am afraid further social security measures, albeit very urgent, are difficult to introduce, also given the budget constraints Italy is facing. The second proposal, concerning the reform of academic institutions, entails very deep and at the same time huge change in culture and organizational structure. I do not believe this is impossible, but it will for sure take a lot of time and requires a certain amount of political will.

As for the three least important proposals, Respondent 6 chose the following (question 4): ‘banking’ (least important); ‘knowledge diffusion after failure’ (second least important); and ‘taxation of corporate income’ (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for Italy (question 5), Respondent 6 selected ‘4’.

Respondent 6 made no ‘other comments’ (question 6).

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**Respondent 7** identified the proposals concerning the following three areas as being the most important ones (question 1): ‘product market regulation’ (most important); ‘universities’ (second most important); and ‘knowledge diffusion after failure’ (third most important). The respondent was of the view that the implementation of the proposal concerning ‘universities’ was not politically feasible (question 2). She explained her position in the following terms (question 3):

Even if there have been several attempts to change the Italian academic system, a general reform is difficult to be achieved and the academic system is still too far from entrepreneurship.

As for the three least important proposals, Respondent 7 chose the following (question 4): ‘knowledge generation’ (least important); ‘employment protection legislation #1’ (second least important); and ‘private wealth’ (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for Italy (question 5), Respondent 7 selected ‘3’.

Respondent 7 made no ‘other comments’ (question 6).

## Analysis

Out of the 15 policy proposals for Italy, **each of the following 8 proposals was considered by at least two respondents as part of the top three most important proposals** (question 1):

**‘The rule of law’** – selected by two respondents, who ranked it as the most important proposal and third most important, respectively;

**‘Knowledge generation’** – selected by four respondents, three of which ranked it as the most important proposal, while the fourth one ranked it as second most important;

**‘Education in the entrepreneurial society’** – selected by three respondents who ranked it as most important, second most important and third most important, respectively;

**'Creativity in primary and secondary education'** – selected by two respondents, who ranked it second and third most important, respectively;

**'Product market regulation'** – chosen by four respondents, one of which ranked it as most important, two respondents ranked it as second most important, and one respondent ranked it as third most important;

**'Knowledge diffusion after failure'** – chosen by two respondents, both of whom ranked it as third most important;

**'Universities'** - chosen by two respondents, who ranked it second most important and third most important, respectively;

**'Employment protection legislation #1'** – chosen by two respondents, who ranked it first important and second most important, respectively.

Based on both the number of times it was chosen and on ranking, it seems that the proposal concerning **'knowledge generation' is to be considered as being the most important** (selected four times; ranked most important by three respondents and second most important by one respondent). Based on the same criteria, the proposal concerning **'product market regulation' is to be considered as second most important** (selected four times; ranked most important once, second most important twice, and third most important once), while the proposal concerning **'education in the entrepreneurial society' is to be considered as third most important** (selected three times; ranked most important, second most important, and third most important).

As for the political feasibility of implementation (questions 2 and 3), **the following five proposals were considered by at least one respondent to be non-implementable:**

#### **'The rule of law'**

Two respondents expressed the view that the implementation of the proposal concerning 'the rule of law' was not politically feasible. As mentioned above, one respondent concisely opined that "[t]he rule of law is weakened by corporative resistance offered by a large number of incumbent categories,

ranging from established business associations to notaries”. The other respondent also gave a rather cursory explanation, stating that “a civil law overhaul [...] [is] especially difficult to achieve satisfactorily in the current political and economic situation”

#### **‘Knowledge generation’**

Two respondents expressed the view that the implementation of the proposal concerning ‘knowledge generation’ was not politically feasible. According to one of the respondents “[k]nowledge creation within universities is endangered by an ever-increasing political vision that diminishes the role of public institutions, including in education (e.g. public funding for PhD scholarships have been reduced by half in the last ten years, whereas the Italian Ministry of Education is focusing on primary and secondary education)”. The other respondent explained that the “proposal concerning the reform of academic institutions, entails very deep and at the same time huge change in culture and organizational structure”. In her opinion, this was not “impossible, but it will for sure take a lot of time and requires a certain amount of political will”.

#### **‘Education in the entrepreneurial society’**

One respondent was of the view that the implementation of this proposal would not be politically feasible. He explained that “in spite of long-alleged willingness to promote the study of English (jointly with informatics and entrepreneurship, which was a typical education-related slogan under Berlusconi’s Governments) in primary and secondary education, Italians are still largely monolingual; more importantly, the Italian media contribute significantly to a self-referential mentality, e.g. foreign politics and news from the world in a broader sense are residual.”

#### **‘Employment protection legislation #1’**

Two respondents were of the view that the implementation of this proposal was not politically feasible. According to one respondent “a reinvention of the Italian welfare system [...] [is] especially difficult to achieve satisfactorily in the current political and economic situation”. The other respondent opined that “further social security measures, albeit very urgent, are difficult to introduce, also given the budget constraints Italy is facing”.

## **'Universities'**

One respondent took the position that the implementation of the proposal concerning 'universities' was not politically feasible. In her view, although "there have been several attempts to change the Italian academic system, a general reform is difficult to be achieved and the academic system is still too far from entrepreneurship".

Out of the 15 policy proposals for Italy, **each of the following 8 proposals was considered by at least one respondent as part of the three least important proposals** (question 4):

**'Product market regulation'** – selected by one respondent, who ranked it as least important;

**'Confidentiality agreements and barriers to mobility'** – selected by three respondents, two of whom ranked it as third least important, and one as second least important;

**'Taxation of dividends and capital gains'** – selected by two respondents, who ranked it as second least important and as third least important, respectively;

**'Banking'** – selected by two respondents, both of whom ranked it as the least important;

**'Employment protection legislation #1'** – selected by three respondents, two of whom ranked as second least important, and one as third least important;

**'Private wealth'** – selected by three respondents, who ranked at least important, second least important and third least important respectively;

**'Social insurance systems'** – selected by one respondent, who ranked it second most important;

**'Knowledge diffusion after failure'** – selected by three respondents, two of whom ranked it as least important, and one as second least important.

To be noted is that there is **some overlap between the group of proposals considered to be part of the top three most important and the ones considered to belong to the group of the three least important**. Thus, one respondent considered 'product market regulation' to the least important

proposal, while a majority of respondents considered it to belong to the top three most important proposals (see above). Moreover, three respondents considered the proposal concerning 'employment protection legislation #1' as belonging to the group of the three least important proposals, whereas two respondents held the view that this proposal should be among the top three most important. The situation is virtually identical in respect of the proposal concerning **'knowledge diffusion after failure'**, which based on the number of respondents who placed in the group of the least important proposal and on the ranking **seems to be the least valued proposal** - however, two respondents placed among the three most important proposals/. On the basis of the same criteria, the proposal concerning **'private wealth' seems to be the second least valued proposal**, whereas the proposal concerning **'employment protection legislation #1' appears to be the third least valued proposal**.

When asked to rank on a scale from 1 to 5 the usefulness of the Reform Strategy for Italy (question 5), three respondents selected '3', two respondents selected '4', one respondent selected '5', and one respondent selected '2'. This warrants the conclusion that a majority of the seven respondents found the Reform Strategy for Italy more useful than not.

Regarding question 6, a number of three respondents provided us with 'other comments', which can be read in full above. It is worth noting that some of those comments are rather critical of the proposed reform strategy – see above the 'other comments' provided by respondents 3 and 4.

## 4. FIRES Reform Strategy for Germany - Report on Round Table 'Mittelstand' (Berlin, 24 April 2018)<sup>18</sup>

**Venue:** *German Federal Ministry for Economy and Energy, Berlin*

A list of participants can be found in Annex II to this report.

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The participants were sent the *Policy Brief on the FIRES-reform strategy for Germany*<sup>19</sup> one week in advance and were asked to reflect on the following questions:

- Would you agree with our approach?
- Would you agree with our 'diagnosis'?
- Would you agree with the proposed 'treatment'?

The participants were welcomed by Mr. Christian Hirte (Parliamentary State Secretary with the Minister of Economics and Energy) and Mrs. Sabine Hepperle (Germany's SME Special Envoy). In an introductory note, Prof. Friederike Welter (President of the Institut fuer Mittelstandsforschung (IfM)) outlined why SME policy needs new impulses. After kicking-off the Round Table, **Professor Mark Sanders** (FIRES) and **Professor Michael Fritsch** (FIRES) presented the reform agenda for Germany that was developed in the FIRES project (see Table 2 below).

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<sup>18</sup> The roundtable was conducted in German. Hence, this section is based on the report to Annex X to Deliverable 5.12 (Mark Sanders and Michael Wyrwich, *Policy Roundtable Report*).

<sup>19</sup> Sanders et al., n. 3 above.

**Table 2** The FIRES Reform Proposals for Germany

#	Title	Proposal	Explanation	In the UK
1	<b>Patents and Intellectual Property</b>	Limit the breadth, width and span of patent protection to cover working prototypes and market ready innovations only for a short period of time.	Of course, the European union is party to international treaties, such as the WTO TRIPS Agreement, that sets minimum requirements to IPR. We do not propose the European Union violate or disregard these treaties, but encourage the Union to use its influence in the governing bodies to get them reformed to accommodate our proposals. These limitations of patent rights would still fall well within the institutional structure in place, but would significantly reduce the risk entrepreneurs face of being sued for infringements on patents they did not even know existed.	Of course this is an international issue, but it would certainly help if Germany were to advocate this at the appropriate levels. Because Germany is an important player in this field. It may, on first sight, go against the interests of a country that patents a lot. But this will stimulate commercialization also in Germany.
2	<b>Taxation of Private Wealth</b>	We therefore propose to increase the wealth available for informal entrepreneurial finance by reducing taxes on private wealth, private wealth transfers and inheritance.	Entrepreneurs distribute ownership rights to informal investors and their investments early in the start-up process, suggesting triple-F financiers are not mere charities. The supply of triple-F informal entrepreneurial finance typically follows demand closely and that amounts invested are typically in the same order of magnitude as those committed by angel investors discussed below (in the 0000s). That is, entrepreneurs mobilize significant funds from their personal networks and these funds help them develop their venture in its earliest stages. It is possible that more supply of informal finance would thus enable or even cause more entrepreneurial venturing.	The transfer of wealth across generations, especially in the form of business assets, is a major issue in the family-firm dominated <i>Mittelstand</i> in Germany. The ageing demographic may add to this problem. By reducing taxation on private wealth transfers, the transition in these firms can be improved, but this also frees up more so called triple-F finance in Germany.
3	<b>Banking</b>	Increase the mandatory equity ratio in banking gradually to 10-15% to have more skin in the game and allow banks to take on more risk responsibly in their lending portfolios.	Given that European banks operated profitably at much higher equity ratios in the past whereas non-European banks continue to do so, this proposal only requires a sound implementation and transition strategy. Gradually	German banking landscape has a few very large banks, Deutsche Bank in particular and many small, often locally operating banks ( <i>Sparkassen</i> ). European and international minimum standards are

			building up the equity buffer while at the same time accumulating more publicly guaranteed SME-loans in the portfolio is a balanced approach. Higher required equity buffers will increase the price of credit and some might argue that this will reduce credit and investment in the aggregate. We feel, however, that such price increases will only drive out the marginal investment projects and most of these are currently found in the secondary, speculative investments that economists deems unproductive.	applied, but allow for rather low reserves and high leverage. German banks currently are well capitalized and operate on average with low leverage, but Deutsche Bank was branded the worlds' riskiest bank by the US FDIC in 2016 using its simpler method of computing leverage.
4	<b>Angel and Venture Capital</b>	Reduce barriers to the sale, acquisition and IPO of VC-funded start-ups.	An option to ensure that incentives to invest are stronger while possibilities to offload risks onto taxpayers and financiers are kept small, is to reduce capital gains taxation for venture capital equity investments (but NOT for private equity used for leveraged buy-outs, speculation and mergers and acquisition). And to improve the opportunities to exit. In that way, VC investments are not subsidized directly but become more interesting as there are more options for a quick exit.	Germany does not seem to suffer from a direct lack of Angel and VC funds and its geographical distribution nicely matches the entrepreneurial ecosystem. However, the German market remains small because of low demand. We propose to stimulate this market by strengthening incentives as direct subsidies in these circumstances will only cause too much cheap money chasing too few projects.
5	<b>Alternative Finance and Disintermediation</b>	We propose to implement a light-touch regulatory regime for equity crowd funding.	Light touch regulation has been successful in Britain and could work well in all European Member States. This is not controversial as the European Commission and most of the member states have already expressed their intentions to do so	Crowdfunding Insider argues that German crowdfunding regulation introduced in 2015 and reviewed in 2017 seeks to limit crowd funding for real estate investment. The arguments are all about stability. We would encourage experimentation with this new form of finance under tight supervision, but loose regulation.
6	<b>Social Insurance Systems #1</b>	We propose below to make important social insurance benefits "portable" between jobs and between regular employment and self-employment.	Public income insurance systems in combination with strict labour security legislation tend to penalize individuals who assume entrepreneurial risk (Ilmakunnas and Kanninen 2001). This is because these systems confer a	Labour market mobility in Germany is relatively low. Geographically, occupationally and across LM-statuses. It seems in Germany this is also due to the "orderly" educational system that sets

			relative advantage on employees with many social security benefits—such as disability, sickness, unemployment and pension benefits—being explicitly linked to formal employment. These benefits further increase the opportunity cost of leaving a tenured position as an employee and thus reduce the incentives for entrepreneurship (Audretsch et al. 2002).	people on a very predictable career path. Decoupling formal employment from social security entitlements is an important start.
7	<b>Employment Protection Legislation #1</b>	Relax the stringency of employment protection legislation for permanent contracts.	A competently implemented liberalisation will reduce job security but increase employment security for workers, as labour demand will increase and more opportunities will be created in the labour market. That said, the impact and strictness of employment protection legislation depends on a complex combination of components, such as grounds for individual dismissal, redundancy procedures, mandated periods of advanced notice, severance payments, special requirements for collective dismissals, rules favouring disadvantaged groups, and so forth. For liberalisation to have the desired results, countries must develop carefully tailored strategies to avoid jeopardizing the process, ideally by considering and possibly emulating the paths already taken by similar countries.	Germany ranks 4th for permanent and 44th for temporary contracts protection in the OECD ranking. The gap is huge. Not many countries show such a difference. It may be argued that tight labour protection is needed to maintain the high levels of firm specific human capital that characterise Germany, but that cannot justify the gap with temporary workers. This disparity implies not all employers compete for talent on a level playing field and government enforced regulation benefits large corporates over new entrants.
8	<b>Employment Protection Legislation #2</b>	Establish or strengthen training programs to prepare workers for new occupations	Countries with a low rate of substitution between inputs in routine production, will not be able to gain a comparative advantage in high-value products that are intensive in non-routine tasks. As a result, they will end up specializing more and more in routine-intensive products and experience lower wage growth. The pattern of firm-growth in e.g. Belgium indicates that young firms under-adjust to good news. As a result, many promising firms scale up too slowly and they might miss out on	On the job training for mobility has to be publicly funded. Or by employees. Because we cannot expect employers (let alone start-ups) to pick up the bill. This can be a first step towards addressing the lock-in effect of the German dual educational system mentioned also under proposal 6.

			opportunities in a fast-paced global market.	
9	<b>Other Barriers to Mobility</b>	Consider experimenting with a guaranteed return to a job after time spent with a start-up and/or a publicly funded “venture creation leave” for people engaged in a firm start up.	It was generally agreed that a policy to promote mobility would involve both pull (eliminating barriers) and push (encouraging mobility) instruments. However, the desirable mobility and flexibility in the labour market can only be achieved when a basic level of income and job security is ensured for those involved. People will not take the risks associated with working as or for a young start-up when necessities of modern life are not met and reasonably secure.	Germany would stand to gain from R&D workers leaving their employer when especially serendipitous discoveries are outside the strategic scope of the incumbent. This may be important to support not only R&D workers that could start up innovative high tech ventures but support also the everyday entrepreneurs who are important in an entrepreneurial society.
10	<b>Social Insurance Systems #2</b>	Guarantee equal access to welfare state arrangements for all, regardless of tenure in a specific job or labour market status, to make all potential employers compete on a level playing field.	An Entrepreneurial Society will see more people active in the labour market as self-employed or freelance worker or working in inherently risky ventures and SMEs with corresponding intervals of being between jobs. It is evident that these people face income and health risks that they cannot (self-) insure, as much as anyone else. Therefore, in a modernized labour market, these citizens should be given access to collective arrangements on an actuarially fair basis.	We could even make this proposal a bit stronger and argue that joining such collective arrangements should be mandatory to avoid competition resulting in underinsurance and eventually transferring the risk on society, as is the case with for example health costs and pension insurance.
11	<b>Product Market Regulation</b>	Excessive barriers to new business formation and new entry should be lifted where possible.	This, however, seems to be part and parcel of the EU policy agenda already. Our consortium supports that effort with the caveat that well justified barriers to entry are useful to keep unproductive or even destructive ventures out. It should be easy for challengers to enter (and exit) but these challengers should be serious.	The survey above clearly indicates founders think bureaucracy and regulation is a barrier to business formation and the Doing Business Index of the World Bank ranks Germany ranks 113 out of 190 in ease of starting a business. Comparing to Georgia at 20% below the global frontier and not improving as fast.
12	<b>Digitalisation</b>	Invest in an excellent, open access digital infrastructure for European citizens and businesses.	To allow entrepreneurs to act on the opportunities and protect European citizens from the risks involved in digitalisation, it is important to embrace these trends. No regret policy proposals to do so are to provide an excellent ICT-	Providing such an infrastructure would promote scaling of new digital ventures and high tech services. As this is a fertile ground for new firm formation, Germany could invest here to promote a more

			infrastructure in Europe that allows entrepreneurs to quickly scale their innovative ideas to the EU and global level.	adventurous entrepreneurial ecosystem without jeopardising upsetting its existing routine innovation paradigm in manufacturing.
13	<b>Bankruptcy Law</b>	Insolvency regulation should protect inherently healthy and promising ventures and allow for a quick and ex ante transparent liquidation of those that are not.	It should not be too easy to file for bankruptcy. That would give the firm too much bargaining power in such negotiations. If writing off debt and starting anew is too convenient a resort for failing entrepreneurs, it may encourage exploitation and destructive entrepreneurship, harming creditors and the rest of society. On the other hand, a person who goes bankrupt because of a failed venture should not be stigmatized and forever haunted by debt and ostracized from future entrepreneurship.	This proposal ties in with the Business Risk Acceptance and Fear of Failure but this necessarily is a long run intervention. Only by signalling strongly to society that failure in business is accepted and forgiven, can cultural attitudes gradually become more supportive. No quick results to be expected. German bankruptcy law seems stringent.
14	<b>Knowledge Generation</b>	Both the EU and its member states should create healthy, well-funded, academic institutions that allow Europe's best and brightest to pursue their research interests.	In the literature, there is also broad consensus that basic research is a pure public good. It therefore makes perfect sense to channel more of the EU and national budgets to an activity that provides such evident positive spillovers throughout the Union.	For Germany this should be interpreted as a call for increasing the public funding for universities in particular. These institutions have a strong educational focus in Germany as it is and spending per student has declined and at €9000 per students is less than the OECD average of €10.400. Underinvesting in academic teaching and basic research jeopardizes the knowledge base in the long run.
15	<b>R&amp;D</b>	We propose to limit R&D subsidies and tax breaks to "new to the market" activities.	The reasoning behind that proposal is that only "new to the market" R&D generates the positive external effects that justify public support. New to the market should here be understood as new to the global markets and therefore truly innovative.	Ties in with shortage in radical product and technology innovations. "New to the market" is by definition more radical. Current programs support using grants and loans (not tax breaks) and incremental projects are eligible
16	<b>Knowledge Diffusion and Commercialisation</b>	We propose to strengthen intrapreneurship.	Our consortium agrees that perhaps intrapreneurship, entrepreneurial venturing in the relative security of a formal employment relationship, is more complementary to the European model of the welfare state. Promoting intrapreneurship	In the German case it is important to promote more radical intrapreneurship. Intrapreneurs in Germany are still too often seen as enemies and policies should be designed to support them.

			is then probably a more efficient way to push Europe in the direction of a more Entrepreneurial Society.	
17	<b><i>Creativity in primary and secondary education</i></b>	Push for reforms in primary and secondary education that promote creativity, a willingness to experiment, a tolerance of failure and out-of-the-box thinking.	More appreciation for creativity (and therefore tolerance of deviant behaviour) will probably shift the balance from business oriented to more creative entrepreneurship. Evidence from field experiments and in the FIRES-project suggest that creative entrepreneurs are more socially oriented than strictly business-oriented entrepreneurs. Promoting creativity in primary and secondary education, to the extent possible, is therefore a long-term strategy to promote productive entrepreneurship that will create innovative, sustainable and inclusive growth.	If we combine German low scores on Education and Training plus the need for more risk acceptance in the REDI-data analysis, we conclude reforms in education are desirable. The government has put some programs in place in the 2000s already, but a focus on creativity and out-of-the-box thinking was not part of these programs. A lot has been achieved in recent decades. But education in the 21 <sup>st</sup> century requires different skills and brave leadership alongside professional teachers in German schools. As this is a shared competency, the federal and Länder levels will have to coordinate, but individual Länder can also experiment.

The presentation involved an overview on fundamental institutional settings of the country and the position of its entrepreneurial ecosystem in an international comparison. The talk also touched upon regional differences within Germany. The bottlenecks of the German entrepreneurial ecosystems were outlined. In conclusion, the ecosystem apparently works rather well. Nevertheless, there is room for policy improvement. Professor Sanders mentioned different policy measures that could be helpful to promote entrepreneurship and the entrepreneurial society in Germany. The main message for Germany was that the German institutions could allow for more experimentation and radical innovation by strengthening the educational system and considering creating a more equal playing field between dependent employment and self-employment/employer when it comes to labour protection and social security. That is, Germany could afford to become a bit more adventurous.

After the FIRES presentation two further talks were given. The first presentation was given by **Peter Weiss** from the Association of the German crafts and manufacturing trades. His main point was that

the increasing documentation requirements for EU state aid regulation represent a stumbling block for firms in crafts and manufacturing trades. Current rules come along with a lot of bureaucracy creating unintended consequences, such as a severe drop in the participation rate in apprenticeship programs. The main take away of the presentation was that state aid regulation should be more flexible and allow for higher threshold levels for SMEs.

The final presentation of the first session was held by **Klaus-Heiner Röhl** from the Institute of the German Economy. He provided descriptive statistics on the SBE sector in Germany and Europe. He stressed that the SME definition of the EU should be handled more flexibly in order to promote SME growth. This should be accompanied by deregulation of documentation requirements. His emphasis was on so-called mid-cap companies, with more than 250 but less than 3000 employees, which are not SMEs by definition, but operate under similar organizational routines and firm behaviour. According to the opinion of the Institute, the pivotal role of the Mittelstand for German economic development implies that such companies should be targeted as well in an entrepreneurial society.

The talks of the first session were followed by a lively debate. One of the patterns discussed was whether there needs to be indeed an adjustment of the size threshold of the SME definition or whether institutional reforms and a reduced bureaucracy are promising policy avenues. One issue of lifting up the SME threshold is that the budget has to be distributed among more firms. This was perceived as a problem of changing the SME definition. The discussion also revolved around the detrimental effect of (German) risk aversion on entrepreneurship. Several participants stressed that addressing such deeply rooted institutional/cultural patterns are more important than changing the distribution of budgets and changing definitions. An interesting train of thoughts that emerged in the discussion was that the high level of risk aversion that is observable in Germany is not innate but driven by the institutional architecture. Put differently, institutions like high employment protection and entrepreneurship-inhibiting insolvency laws increase the risks involved with entrepreneurial failure. Fostering a culture of accepting failure might be helpful but not pivotal for reducing risk aversion. Rather, institutional reforms that decrease the personal risks of failure may be more promising.

In the second session after lunch, there were two further presentations. In the first talk, **Michael Rothgang** from the Rheinisch-Westfälischen Wirtschaftsforschungsinstitut (RWI) presented on the current trends in productivity among German Mittelstand firms. The RWI proposes several measures

to increase the level of productivity. This implies a more efficient use of ICT in all production stages. The second talk, by **Marius Berger** (Zentrum für Europäische Wirtschaftsforschung GmbH (ZEW)), focused on start-up investments by business angels. In particular, the focus was on the INVEST program of the German government. The program subsidizes venture capital investments by business angels. A novel feature is that not the company but the business angel investing the money is given the subsidy. It was outlined that the INVEST program reduced market failure in the seed stage. In most cases experienced business angels are investing but the program also supported so-called 'virgin' angels which did not fund new innovative companies in the past.

The discussion focused on several topics. One pattern was the effect of the angel investments on firm development. There is no detectable effect on firm productivity. Against this background, it was discussed whether the cultural effects of such a program are more important. Creating an environment where investing in highly innovative companies is well-accepted can have long-term effects, also in light of the earlier discussion on risk attitudes. Productivity effects might be observable in the long-run only. Apart from that, the idea to subsidize the investors and not the firms was regarded as a fruitful strategy. Professor Sanders drew an analogy to human capital investments. That is, policy makers subsidize formal qualifications while people decide where (in which industry) they utilize their human capital. With respect to the general productivity development of Mittelstand firms, it was noted that there is a huge variation in median and mean values that were shown in the first presentation of the session. One plausible explanation that was discussed is that digitalisation put firms under pressure and there is to date great variance in the degree to which firms are able to cope with this challenge. In the last round of discussions opportunities for knowledge and idea exchange between Mittelstand firms and start-ups were highlighted in the first presentation. The presentation was held by **Christof Starke** from the RKW Kompetenzzentrum. In the second presentation, **Professor Andrea Herrmann** from the FIRES-project presented research results on different types of entrepreneurship across countries with distinct institutional frameworks. The talk demonstrated that institutional differences determine the type of entrepreneurship and the sort of innovation pursued by entrepreneurs (incremental vs. radical innovation). In this respect, Germany has an advantage in incremental innovation. Copying institutions from more liberal market economies may put this advantage at risk. According to Andrea Herrmann, promoting incremental innovations in Germany requires better finance for SMEs, reduced taxation of SMEs and relaxing regulation.

In the subsequent discussion, it was critically discussed whether capital access and tight regulations are indeed the bottleneck for start-ups. An important point that was raised is that varieties of capitalism would require also a variety in EU policies across member states. It was argued that copying the Silicon Valley model would be ill-advised, but Germany and the EU cannot be complacent. The development of digital technology and the rise of China and its approach to improve existing technologies poses a strong threat for the development of Mittelstand firms and the German style of entrepreneurship.

In the final discussion, the question was raised whether a European Mittelstand policy should be put on a future agenda. The representatives of the Ministry for Economy and Energy concluded that the Roundtable was very productive. A lot of ideas for future round tables could be developed based on the presentations by the FIRES team and the subsequent discussions.

## 5. Questionnaire Concerning the FIRES Reform Strategy for Germany

In the days following the policy roundtable we contacted via e-mail all the participants<sup>20</sup> and asked them to complete a questionnaire concerning the 17 FIRES policy reforms for Germany (see Table 2 above). More specifically, we requested that they answer the 6 questions below:

- 1. Please rank the three proposals that are in your opinion the most important ones by assigning them numbers from 1 to 3, with 3 being the most important and 1 the least important. Please insert the numbers in the boxes preceding the title of the proposals.**

<input style="width: 20px; height: 20px; border: 1px solid black;" type="checkbox"/> <b>Patents and Intellectual Property</b>	<input style="width: 20px; height: 20px; border: 1px solid black;" type="checkbox"/> <b>Social Insurance Systems #2</b>
<input style="width: 20px; height: 20px; border: 1px solid black;" type="checkbox"/> <b>Taxation of Private Wealth</b>	<input style="width: 20px; height: 20px; border: 1px solid black;" type="checkbox"/> <b>Product Market Regulation</b>
<input style="width: 20px; height: 20px; border: 1px solid black;" type="checkbox"/> <b>Banking</b>	<input style="width: 20px; height: 20px; border: 1px solid black;" type="checkbox"/> <b>Digitalisation</b>
<hr style="width: 100%; border: 0.5px solid black;"/>	<hr style="width: 100%; border: 0.5px solid black;"/>

<sup>20</sup> Except for the FIRES researchers who attended the round table.

- |   |   |
|---|---|
| <input type="checkbox"/> <i>Angel and Venture Capital</i>                 | <input type="checkbox"/> <i>Bankruptcy Law</i>                                |
| <input type="checkbox"/> <i>Alternative Finance and Disintermediation</i> | <input type="checkbox"/> <i>Knowledge Generation</i>                          |
| <input type="checkbox"/> <i>Social Insurance Systems #1</i>               | <input type="checkbox"/> <i>R&amp;D</i>                                       |
| <input type="checkbox"/> <i>Employment Protection Legislation #1</i>      | <input type="checkbox"/> <i>Knowledge Diffusion and Commercialisation</i>     |
| <input type="checkbox"/> <i>Employment Protection Legislation #2</i>      | <input type="checkbox"/> <i>Creativity in primary and secondary education</i> |
| <input type="checkbox"/> <i>Other Barriers to Mobility</i>                |   |

**2. Do you consider the implementation of the three proposals you have chosen to be politically feasible? Please check only one box.**

**Yes for all three**

**No for all three**

**No for two of them. Indicate which ones:**

**No for one of them. Indicate which one:**

**3. If you consider the implementation of any of the proposals you have chosen to be politically unfeasible, please indicate the title of the proposal(s) in the box below and explain why you think the implementation would be unfeasible.**

**4. Please rank the three proposals that are in your opinion the least important ones by assigning them numbers from 1 to 3, with 1 being the least important. Please insert the numbers in the boxes preceding the title of the proposals.**

- |   |   |
|---|---|
| <input type="checkbox"/> <i>Patents and Intellectual Property</i> | <input type="checkbox"/> <i>Social Insurance Systems #2</i> |
|---|---|

- |   |   |
|---|---|
| <input type="checkbox"/> <i>Taxation of Private Wealth</i>                | <input type="checkbox"/> <i>Product Market Regulation</i>                     |
| <input type="checkbox"/> <i>Banking</i>                                   | <input type="checkbox"/> <i>Digitalisation</i>                                |
| <input type="checkbox"/> <i>Angel and Venture Capital</i>                 | <input type="checkbox"/> <i>Bankruptcy Law</i>                                |
| <input type="checkbox"/> <i>Alternative Finance and Disintermediation</i> | <input type="checkbox"/> <i>Knowledge Generation</i>                          |
| <input type="checkbox"/> <i>Social Insurance Systems #1</i>               | <input type="checkbox"/> <i>R&amp;D</i>                                       |
| <input type="checkbox"/> <i>Employment Protection Legislation #1</i>      | <input type="checkbox"/> <i>Knowledge Diffusion and Commercialisation</i>     |
| <input type="checkbox"/> <i>Employment Protection Legislation #2</i>      | <input type="checkbox"/> <i>Creativity in primary and secondary education</i> |
| <input type="checkbox"/> <i>Other Barriers to Mobility</i>                |   |

5. *What is your general assessment of the reform package? (please check only one box)*

- |                            |                            |                            |                            |                            |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| <input type="checkbox"/> 1 | <input type="checkbox"/> 2 | <input type="checkbox"/> 3 | <input type="checkbox"/> 4 | <input type="checkbox"/> 5 |
| <i>Useless</i>             |                            |                            |                            | <i>Very useful</i>         |

6. *Other comments, if any*

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A number of 5 persons returned the completed questionnaire. Their responses are detailed below.

**Respondent 1** identified the proposals concerning the following three areas as being the most important ones (question 1): ‘employment protection legislation #1’ (most important); ‘digitalisation’ (second most important); and ‘creativity in primary and secondary education’ (third most important).

The respondent was of the view that the implementation of all three proposals was politically feasible (question 2 and 3).

As for the three least important proposals, Respondent 1 selected the following (question 4): 'patents and intellectual property' (least important); 'bankruptcy law' (second least important); and 'taxation of private wealth' (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for the Germany (question 5), Respondent 1 selected '4'.

Respondent 1 offered us the following 'other comments' (question 6):

The topic environmental protection is completely missing. In my view, it is very important that economic policy has to deal with this: Considering the possibility of economic growth and wealth without exploitation of natural resources.

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**Respondent 2** identified the proposals concerning the following three areas as being the most important ones (question 1): 'employment protection legislation #1' (most important); 'social insurance systems #2' (second most important); and 'digitalisation' (third most important). The respondent was of the view that the implementation of two of the three proposals was not politically feasible: *i.e.*, 'employment protection legislation #1' and 'social insurance systems #2' (question 2). He explained his position in the following terms (question 3):

Proposals related to relaxing labor market regulations are notoriously difficult to implement in Germany. I don't see how this will change in the coming years, given the economic and political uncertainties ahead. Digitization in turn is politically attractive and is therefore likely to be pushed by all parties.

As for the three least important proposals, Respondent 2 selected the following (question 4): 'R&D' (least important); 'creativity in primary and secondary education' (second least important); and 'knowledge diffusion and commercialisation' (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for the Germany (question 5), Respondent 2 selected '3'.

Respondent 2 provided us with the following 'other comments' (question 6):

I find the suggestions to be plausible as well as politically and economically relevant; however, I am unsure about the political feasibility given my assessment of the current and expectations regarding the future political climate, which, I believe, is likely to turn stronger against pro-market reforms. Of course, this should not influence your policy implications, but will probably become relevant when presenting your research to national policy-makers facing the electorate.

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**Respondent 3** identified the proposals concerning the following three areas as being the most important ones (question 1): 'R&D' (most important); 'knowledge generation' (second most important); and 'digitalisation' (third most important). The respondent was of the view that the implementation of all three proposals was politically feasible (question 2 and 3).

As for the three least important proposals, Respondent 3 selected the following (question 4): 'employment protection legislation #1' (least important); 'social insurance systems #1' (second least important); and 'employment protection legislation #2' (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for the Germany (question 5), Respondent 3 selected '2'.

Respondent 3 made no 'other comments' (question 6).

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**Respondent 4** identified the proposals concerning the following three areas as being the most important ones (question 1): 'knowledge diffusion and commercialisation' (most important); 'creativity in primary and secondary education' (second most important); and 'knowledge generation' (third most important). The respondent was of the view that the implementation of the proposal related to 'knowledge diffusion and commercialisation' was not politically feasible (question 2). He explained his position in the following terms (question 3):

Knowledge Diffusion and Commercialisation: 1) 'radicality' cannot be enforced; 2) supporting "intrapreneurship" is a part of organisation's culture and a firm decision.

As for the three least important proposals, Respondent 4 selected the following (question 4): 'digitalisation' (least important); 'product market regulation' (second least important); and 'patents and intellectual property' (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for the Germany (question 5), Respondent 4 selected '2'.

Respondent 4 offered us the following 'other comments' (question 6):

Suggestions do not account for the peculiarities of the German case. Moreover, a successful policy should encompass the entire social-economic system (that is why we talk about an entrepreneurial ecosystem) and the interplay of its elements. That is to say that there is no patent solution and that what works under certain circumstances must not work under other.

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**Respondent 5** identified the proposals concerning the following three areas as being the most important ones (question 1): 'taxation of private wealth' (most important); 'R&D' (second most important); and 'creativity in primary and secondary education' (third most important). The respondent was of the view that the implementation of the proposal concerning 'taxation of private wealth' was not politically feasible (question 2). He explained her position in the following terms (question 3):

Taxation: policy fears of 'social' injustice

As for the three least important proposals, Respondent 5 selected the following (question 4): 'angel and venture capital' (least important); 'bankruptcy law' (second least important); and 'social insurance systems #2' (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for the Germany (question 5), Respondent 5 selected '4'.

Respondent 5 made no 'other comments' (question 6).

## Analysis

Out of the 17 proposals for Germany, **each of the following 8 proposals was considered by at least one respondent as part of the top three most important proposals** (question 1):

**'Employment protection legislation #1'** – selected by two respondents, both of whom ranked it as the most important proposal;

**'Digitalisation'** – selected by three respondents, one of whom ranked as second most important, while the other two respondents ranked it as third most important;

**'Creativity in primary and secondary education'** – selected by three respondents, one of whom ranked as second most important, while the other two respondents ranked it as third most important;

**'Social insurance systems #2'** – selected by one respondent, who ranked it as second most important;

**'Knowledge generation'** – selected by two respondents, who ranked it second most important and third most important, respectively;

**'R & D'** – selected by two respondents, who ranked it as most important and second most important, respectively; and

**'Knowledge diffusion and commercialisation'** – selected by one respondent, who ranked it as most important.

**'Taxation of private wealth'** – selected by one respondent, who ranked it as most important.

Based on the number of times they were selected and on ranking, **the following proposals could be considered the most important three proposals: 'digitalization'** (selected three times; ranked second most important once and third most important twice), **'creativity in primary and secondary education'** (selected three times; ranked second most important once and third most important twice), and **'employment protection legislation #1'** (selected twice; ranked most important twice). It is difficult, nonetheless, to rank the importance of the three proposals as the first two were both selected three times and had the same overall ranking, whereas the third one was selected two times but was ranked as most important by both respondents.

As for the political feasibility of implementation (questions 2 and 3), **the following four proposals were considered by at least one respondent to be non-implementable.**

**‘Employment protection legislation #1’** - One respondent (respondent 2) was of the view that the proposal concerning ‘employment protection legislation #1’ was difficult to implement. The respondent explained that ‘[p]roposals related to relaxing labor market regulations are notoriously difficult to implement in Germany.’ In his view this would not “change in the coming years, given the economic and political uncertainties ahead”.

**‘Social insurance systems #2’** - One respondent (respondent 2) was of the view that the proposal concerning ‘social insurance systems #2’ was not politically feasible.

**‘Knowledge diffusion and commercialization’** - One respondent (respondent 4) was of the view that the proposal concerning ‘knowledge diffusion and commercialization’ was not politically feasible or very difficult to implement. The respondent explained that, first, radicality could not be enforced, and that, secondly, whether to support entrepreneurship “is a part of [an] organization’s culture and a firm decision”.

**‘Taxation of private wealth’** - One respondent (respondent 5) was of the view that the proposal concerning ‘taxation of private wealth’ was not politically feasible. In his opinion, this would raise “policy fears of ‘social’ injustice”. One respondent (respondent 2) also stated more generally under question 6 (‘other comments’) that he was unsure of the political feasibility of the reform agenda given that “the political climate [...] is likely to turn stronger against pro-market reforms”.

Out of the 17 policy proposals for Germany, **each of the following 13 proposals was considered by at least one respondent as part of the three least important proposals:**

**‘Patents and intellectual property’** – selected by two respondents, who ranked it as the least important proposal and third least important, respectively;

**‘Taxation of private wealth’** – selected by one respondent, who ranked it third most important;

**‘Bankruptcy law’** – selected by two respondents, both of whom ranked it as second most important;

**‘R & D’** – selected by one respondent, who ranked it as least important;

**‘Knowledge diffusion and commercialisation’** – selected by one respondent, who ranked it as third least important;

**'Creativity in primary and secondary education'** – selected by one respondent, who ranked it as second least important;

**'Social insurance systems #1'** – selected by one respondent, who ranked it as second least important;

**'Employment protection legislation #1'** – selected by one respondent, who ranked it as least important;

**'Employment protection legislation #2'** – selected by one respondent, who ranked it as third least important;

**'Product market regulation'** – selected by one respondent, who ranked it as second least important;

**'Digitalisation'** – selected by one respondent, who ranked it as least important;

**'Angel and venture capital'** – selected by one respondent, who ranked it as least important; and

**'Social insurance systems #2'** – selected by one respondent, who ranked it as third least important.

Based on the number of times they were selected and on ranking, **the following are the two least valued proposals:** **'patents and intellectual property'** (selected twice; ranked least important and third least important, respectively) and **'bankruptcy law'** (selected twice; ranked second least important by both respondents). It is difficult to say which of the two is to be considered less valued. The other 11 proposals were each selected only once. It is important to note that there was **great overlap between the group of the most important proposals and the group of the least important proposals. Thus, the following 7 proposals occurred in both groups:** **'employment protection legislation #1'; 'digitalisation'; 'creativity in primary and secondary education'; 'social insurance systems #2'; 'R & D'; 'knowledge diffusion and commercialisation'; and 'taxation of private wealth'.** When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Strategy for Germany (question 5), two respondents selected '4', one respondent selected '3' and two respondents selected '2'. This warrants the conclusion that a majority of the five respondents found the Reform Strategy for Germany to be more useful than not. Regarding question 6, a number of three respondents provided us with 'other comments', which can be read in full above. A particularly critical comment was that the proposals did not 'account for the peculiarities of the German case' (respondent 4). However, there



were also positive comments such as the one made by respondent 2 who stated that the found “the suggestions to be plausible as well as politically and economically relevant”.

## 6. FIRES Reform Strategy for UK - Report on the Entrepreneurship Policy Round Table (London, 26 April 2018)

**Venue:** *London School of Economics and Political Science (LSE)*

A list of participants can be found in Annex III to this report.

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After the introductory remarks made by Professor Saul Estrin (LSE), Professor Mark Sanders (Utrecht University) introduced the project and presented the *FIRES Reform Strategy for the UK*.<sup>21</sup> The policy proposals for the UK are laid out in Annex VI to this report.

Before presenting the FIRES policy proposals for the UK, **Professor Mark Sanders** explained that there were different sets of institutions that have evolved in Europe which have deep historical roots. Therefore, it would not make sense to look at Silicon Valley and transplant institutions from the US into the European context and expect them to work in the same way. He added that there was no shortage of ideas, or talent, or capital in Europe, and that Europeans were not less capable of engaging in entrepreneurial ventures than people from anywhere else in the world. That being the case, the problem with the European entrepreneurial ecosystems must be related to the allocation of resources. Currently, too little of the resources flow into productive entrepreneurial activity in Europe and this might have something to do with the institutions governing the allocation of resources. Acknowledging that the argument was less applicable to the UK than to the continental EU Member States, Professor Sanders submitted that the weak parties in the ecosystems have been overly protected in Europe. Furthermore, in order to be able to propose reforms, one needed to ‘drill deep’ and think about how these institutions came about historically and how they differ from region to region, as effective reforms need to aim at allocating more capital, more labour and more knowledge to entrepreneurial activity. However, that does not mean that all capital, labour and knowledge should be channeled into entrepreneurial activity. Nonetheless, more of those resources should be directed to entrepreneurial activity, while at the same time bearing in mind time that the optimal dosage may

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<sup>21</sup> Sanders et al., n. 4 above.

differ significantly across the very differentiated regional ecosystems we find in Europe. Subsequently, Professor Sanders presented and explained the seven-step FIRES approach (see also deliverable 6.4).<sup>22</sup>

Regarding the *FIRES Reform Strategy for the UK* (see Table 3 below), Professor Sanders explained that UK is a very open market-based economy, which is not necessarily the case with the rest of the EU Member States. In this regard, the UK is rather exceptional. As a further matter, the country as a whole, especially the south-east of the UK and the area around London, in particular, has very well performing ecosystems compared to the rest of the EU. While the best-performing regions are London and the south-east of the country, the middle and the north are the worst-performing regions. Professor Sanders added that a high share of the entrepreneurial resources of the UK concentrate in the London area, which performs rather well. Finally, he explained that the UK as a ‘patient’ is not very ill. To illustrate, he cited the results of a FIRES survey conducted on 100 UK-based firm founders, 50 out of which reported no significant obstacles to venture creating in the UK. Compared to other counties in the EU, this is a very high score. That being the case, the aim of the reform agenda would be to make the ecosystem in the UK more fertile, more diversified, hopefully more inclusive, and the participants more resilient.

**Table 3** The FIRES Reform Proposals for the UK

#	Title	Proposal	Explanation	In the UK
1	<b>Patents and Intellectual Property #1</b>	Experiment with the right to infringe upon patents that are not actually commercialized.	IP is intended to promote the registration, diffusion and commercial application of new knowledge and technology. But the system is gradually turning into a one where savvy lawyers help large corporates to prevent, not promote these things. To restore the system to its original purpose, the rights of inventors and infringers need to be better balanced. You can be the inventor/discoverer of an idea, but society only benefits if that knowledge is commercialised.	Of course, the UK is party to international treaties, such as the WTO TRIPS Agreement, that sets minimum requirements to IPR. We do not propose the UK violate or disregard these treaties, but encourage it to use its influence in the governing bodies to get them reformed to accommodate these proposals and perhaps lead in experimenting with such reforms.

<sup>22</sup> For an explanation of the FIRES seven-step approach, see Axel Marx, Andrei Suse and Mark Sanders, *Policy Brief on the FIRES 7-step Method for Entrepreneurship Policy Making*, May 2018.

			<p>These limitations of patent rights would still fall well within the institutional structure in place, but would significantly reduce the risk entrepreneurs face of being sued for infringements on patents they did not even know existed.</p>	
2	<p><b>Patents and Intellectual Property #2</b></p>	<p>Support experiments and pilots currently developed with open source patent registration.</p>	<p>The functions of patenting can perhaps be fulfilled more efficiently in other ways and certainly do not require allowing inventors to monopolize and thereby limit the profitable use of the knowledge they have generated. But given the legal complexities and institutional complementarities we propose a cautious approach of experiments that retain the system's benefits while increasing the free flow of knowledge. Scholars proposed open source patents to retain the functions of knowledge repository and verification, while improving the access to knowledge also for commercial use.</p>	<p>Open source patents combine giving credit to the inventor, keeping a registry of useful knowledge and opening up that knowledge base for further expansion, also through commercial venturing. The UK after Brexit will remain a member of EPO, but can offer to take the lead in experiments that will promote free flows of knowledge in society.</p>
3	<p><b>Taxation of Private Wealth</b></p>	<p>Reducing taxes on private wealth, private wealth transfers and inheritance.</p>	<p>Evidence shows that entrepreneurs distribute ownership rights to informal investors and their investments early in the start-up process, suggesting triple-F financiers are not mere charities. The supply of triple-F informal entrepreneurial finance typically follows demand closely and amounts invested are typically in the same order of magnitude as those committed by angel investors (in the 0000s). That is, entrepreneurs mobilize significant funds from their personal networks and these funds help them develop their venture in its earliest stages. It</p>	<p>This may sound counterintuitive as a policy to promote a more inclusive entrepreneurial society in the UK, but small, everyday entrepreneurs cannot access London's increasingly formalized angel and VC markets. Their tickets are too small and returns too low to attract such funding. Thus triple-F finance is their only recourse. This proposal aims to increase the availability of such funding in all regions. As we want to promote especially small tickets and amounts, the tax reductions can be capped at relatively low amounts. Wealth that is actively invested in small, triple-F, equity investments should be treated differently from large fortunes, passively invested in global financial markets.</p>

			is possible that more supply of informal finance would thus enable or even cause more entrepreneurial venturing.	
4	<b><i>Institutional Investors</i></b>	Make it (fiscally) attractive to invest private wealth in entrepreneurial ventures.	Wealth-constrained would-be entrepreneurs are unable to credibly signal their project's worth to outside investors by means of making sizeable equity infusions of their own. More private as opposed to institutionalized wealth would lessen the inherent problem caused by such asymmetric information, and, if needed, enable entrepreneurs to fully finance their ventures until organic growth based on retained earnings is possible.	Following up on the proposed above, the low taxation on wealth could be made conditional on how the wealth is invested. The government should of course not get involved in capital allocation directly, but could rather promote some over other categories of investments. This, combined with crowd lending and equity platforms, can democratize capitalism.
5	<b><i>Banking</i></b>	In the system of bank loan guarantees for start-ups, ensure that credit decision information is made available.	Such public guarantees can be motivated from the fact that entrepreneurial venturing creates knowledge spillovers and positive externalities that banks and entrepreneurs do not consider in their private decisions. This information, however, should then be disclosed (for example via the proposed Entrepreneurship Observatories in Proposal 45 below).	Banks in the UK do not disclose information about credit they grant or credit they refuse. Such information, if adequately anonymised, however, can be very helpful for other credit seekers and investors, also outside the banking sector. Access to such information should be supervised by the government and privacy must be protected.
6	<b><i>Inclusive Entrepreneurship</i></b>	Further develop entrepreneurship programs targeting groups that are disadvantaged in formal employment.	Entrepreneurship is perceived to be inherently more inclusive than employment, but the evidence shows that income and participation gaps largely extend to business ownership and income. To enable disadvantaged groups to engage with the opportunities the Entrepreneurial Society offers, some special attention and support, as already offered in the latest Horizon 2020 program, is justified.	In the UK the probability of being self-employed is higher among migrants and disadvantaged groups and even when self-employed they earn less and work longer hours, they report higher job satisfaction and happiness. For women this is not the case. It is therefore worthwhile to increase participation through promoting self-employment and entrepreneurship among these groups.
7	<b><i>Employment Protection Legislation</i></b>	Establish or strengthen training programs to prepare workers for new occupations	Evidence shows that countries with a low rate of substitution between inputs in routine production, will not be able to gain a comparative advantage	Job creation and destruction are relatively high in the UK. Small firms are disproportionately responsible for this. This implies a more entrepreneurial society, with more

			<p>in high-value products that are intensive in non-routine tasks. As a result, they will end up specializing more and more in routine-intensive products and experience lower wage growth. As a result, many promising firms scale up too slowly and they might miss out on opportunities in a fast-paced global market.</p>	<p>people employment in small and medium sized firms in experimentation, will imply employees need to be equipped with the skills to transfer jobs and employers. This is a public good, benefitting all employees but also their employers.</p>
8	<b>Digitalisation</b>	<p>Develop open standards and open regulation for digital platforms to facilitate peer-to-peer and business-to-business trade, services and finance.</p>	<p>It is important to carefully consider the position of workers and customers in these platforms. Scholars have voiced concerns about the quality of work and the potential that digital platforms may undermine social security. These developments necessitate a careful modernisation of labour market protection and social security systems and adequate investment in human capital, to ensure digitalisation contributes to inclusive growth.</p>	<p>The digital revolution is beginning to change the way we do business across the board. It touches the very institutions that allocate capital, labour and knowledge in society. The UK is leading in platform based financial innovation and in a position to develop and set the standards. A strong infrastructure with clear and well-designed open standards will promote innovation and the creation of new services and creates opportunities for all to contribute and participate. Crowdfunding, crowdsourcing, self-employment and open innovation are all greatly leveraged with digital technology.</p>
9	<b>Knowledge Diffusion after Failure</b>	<p>We propose to set up publicly funded “entrepreneurial knowledge observatories”</p>	<p>Our consortium agreed that a lot of useful knowledge, perhaps of a more applied and tacit nature, is generated in the entrepreneurial process, particularly when ventures fail. That knowledge is lost when entrepreneurs do not share their experiences. However, as that is not their core business and private incentives are absent, it makes sense to publicly fund the collection, curation and diffusion of that knowledge.</p>	<p>In the UK there is a relatively high rate of firm formation and failure. This is beneficial and signals a healthy entrepreneurial ecosystem generating a lot of variety and selecting quick in a tough market environment. However, this also implies a lot of knowledge is lost. Incentives to retain and disclose experiences of in particular failures, are low. Such knowledge constitutes a public good, justifying government intervention.</p>
10	<b>Knowledge Diffusion and Commercialisation</b>	<p>We propose experimenting with a (publicly funded) entrepreneurial leave of absence for R&amp;D workers.</p>	<p>The idea behind that proposal is that a lot of R&amp;D results currently are shelved at incumbent firms because they do not fit these firms’ strategies and interests of the moment or outright go against their short-term interests.</p>	<p>Spin-out ventures are on average more innovative and successful than those started without industry experience. R&amp;D employees engage with pressing problems in their sector and are therefore well-positioned to identify opportunities and assess technical feasibility.</p>

			Instituting the right to an entrepreneurial leave of absence could then promote more spin-out entrepreneurship that may lead to new industries and activities.	
<b>11</b>	<b><i>Creativity in primary and secondary education</i></b>	Push for reforms in primary and secondary education that promote creativity, a willingness to experiment, a tolerance of failure and out-of-the-box thinking.	More appreciation for creativity (and therefore tolerance of deviant behaviour) will probably shift the balance from business oriented to more creative entrepreneurship. Evidence from field experiments and in the FIRES-project suggests that creative entrepreneurs are more socially oriented than strictly business-oriented entrepreneurs. Promoting creativity in primary and secondary education, to the extent possible, is therefore a long-term strategy to promote productive entrepreneurship that will create innovative, sustainable and inclusive growth.	The weakness in the UK we most try to address is low levels of absorptive capacity and firm specific human capital. UK citizens are willing to start a firm, but not so much willing to work for one and invest a lot in its success. Fostering a more entrepreneurial mindset, will in the long run make jobs in start-ups and new ventures more appealing, even for the non-entrepreneurs.
<b>12</b>	<b><i>Universities #1</i></b>	Educate the young and bright to be more entrepreneurial before they make their career choices.	Recognizing the importance of this European model of knowledge diffusion, European universities can take a larger role in the transition to a more Entrepreneurial Society in Europe. This starts with simple no-regret policies that have been proposed before (i.e. the European Commission's Entrepreneurship 2020 Action Plan).	This proposal is an ingredient in almost any Entrepreneurship Strategy and indeed most UK universities offer courses in entrepreneurship. It is perhaps more important that an entrepreneurial spirit is brought in the curricula more broadly. By going from desk to action research, students can be taught entrepreneurial skills even when learning about other topics. Trial and error and learning from failure are traits that any UK pupil should embrace.
<b>13</b>	<b><i>Universities #2</i></b>	Encourage university faculty to stimulate entrepreneurial initiatives while incentives for university spinoffs are increased.	Most US universities have a Technology Transfer Office (TTO), an in-house organization specializing in assisting academic entrepreneurs in commercializing their inventions. However, a TTO could also hinder the commercialization of useful	UK initiatives to form clusters around its academic centres of excellence can be strengthened and made more inclusive to focus on team formation and new firm foundation as opposed to licencing and exploiting IP in more traditional ways. It involves more active engagement of the universities, but such activity would dovetail nicely with proposal 59 above.

			technologies by making the process too bureaucratic and focusing on its own narrowly defined proprietary interests and key performance indicators. Therefore, we propose to promote team start-ups at universities as opposed to trying to sell university knowledge through licence agreements and patents.	
14	<b>Lifelong Learning Strategies #1</b>	Develop mentoring programs by and for elderly employees and entrepreneurs.	FIRES deliverable 5.8 has proposed entrepreneurship campaigns for the elderly as a no-regret option as age should not be considered a barrier to entrepreneurship (Proposal 27). Notably, here we feel it would also be beneficial to develop mentoring programs by and for elderly employees, for whom the transition to a more flexible labour market may be particularly challenging.	The population of the UK is ageing and will continue to do so over the coming decades. This suggests it is important to keep the ageing population actively engaged. Entrepreneurship and self-employment have the great benefit that productivity declines can be absorbed by working less hours and at lower wages with much less problems.
15	<b>Lifelong Learning Strategies #2</b>	Experiment with guaranteed public sector jobs to earn a minimum income. Jobs in young, innovative start-ups should easily compete with such guaranteed public sector jobs, both on wage and content.	The basic idea is that the public sector simply absorbs excess labour when activity in the private sector declines and releases it again when the private sector is expanding. Replacing the buffer of unemployed by a buffer of publicly employed labour. In that way, human capital can be maintained while access to the human capital remains guaranteed.	This proposals goes a step beyond the 2013 Universal Credit system currently being phased in. It extends that program with an entitlement to (part-time) work and aims to maintain human capital when demand is slumping. It is an option, not an obligation to accept such public service jobs and under the Universal Credit system such work will increase earned income. Of course, these jobs should not be so attractive that people get stuck in them. Hourly wages can be kept very low.

After Professor Sanders completed his presentation of the 15 FIRES policy proposals for the UK, Professor Estrin gave the floor to the two *rapporteurs* who had been tasked with presenting reactions to the reform strategy.

**A management board member of a social enterprise**, as the first *rapporteur*, noted that being an entrepreneur has become a ‘cool’ and viable post-school or post-university pursuit. Therefore, it has

attracted only a narrow demographic. She explained that if the image of an entrepreneur is a young middle-class kid on a scooter in Shoreditch (a district in London), that is alienating the people who do not fit that description; *i.e.*, people who are not confident and connected, and who cannot live for free while creating a website during a gap year. She then expressed agreement with the FIRES recommendations and analysis concerning the discrepancies between London and the rest of the UK, which in her view were very stark. Furthermore, she also agreed with the points made in the policy brief with regard to ‘process innovation’. She explained that the productivity puzzle is a real problem in the UK, as it is also across western Europe. In her opinion, R&D (Research & Development) are always referred to as conjoined, even though that is not necessarily the case, given that being good at ‘R’ does not necessarily mean also being good at ‘D’. The UK is great at ‘R’ (research) – due to its world-leading universities, the UK has firms, such as Maclaren and Dyson, that cut production times by half, and institutes that achieve breakthroughs in biotech, for instance, every day. Nevertheless, the UK also has a long tail of ‘zombie companies’ which are not evolving. Despite being good at ‘R’ (research), the UK is not good at ‘D’ (development) – that is, quickly adopting innovations or inventions. As opposed to the UK, Germany is very good at development, as also highlighted in the policy brief. A further point she made was that figuring out how to actually skill-up a new or existing workforce in a new way of doing things, or how to give a competitive advantage to a production line, should be valued as an entrepreneurial success as much as inventing a new widget or designing a new process. Furthermore, she expressed support for the recommendations concerning ‘accumulation and maintenance of human capital throughout the average British career’ (recommendations 11-14, Table 3, Annex VI below). However, she regarded with skepticism the proposition that creativity and experimentation needed to be ‘pushed’ in primary and secondary education. More creativity and experimentation in education should not come at the expense of discipline, given that for creating and inventing one needs knowledge, which is hard to gain, and which requires repetition and practice. Subsequently, she cited the concept of ‘obliquity’, according to which goals are best achieved indirectly. In connection to this concept, she asserted that a government strategy, or a nationally coordinated approach, to solve some of the problems will not work. The risk is that such a strategy would be captured by vested interests and become a maximizing and protectionist bureaucracy itself. A better approach would be to seek to fix precise and tangible problems, particularly around the incentives for those who are rentier capitalists rather than innovators. Finally, she expressed opposition, for moral, practical and ideological reasons, to Universal Basic Income (UBI), which, in her view was reflected in the last

recommendation. First, she was skeptical that the state could deliver UBI. Secondly, she viewed UBI as a cash bribe given to maintain the status quo and avoid confronting the real problem of how to make large chunks of workforces in developed economies competitive in comparison to well-educated and highly motivated workforces from elsewhere who are prepared to offer a given unit of labour quality/output in exchange for a much lower standard of living. In any case she did not see massive job destruction by artificial intelligence and automation as a credible threat.

**An academic**, who had been appointed as second *rapporteur*, began his remarks by challenging the idea that there were no major differences between the regions of the UK. He explained that the reason why the UK's regions seem so similar was because of the methodology that was used in the development of REDI (the Regional Entrepreneurship and Development Index). The problem with that methodology is that it takes into account the extremes across Europe and ranks all the regions on that basis. Consequently, at a European level, the regions of the UK do not look as different as they really are. He illustrated this point by comparing numbers of new enterprise births and growth rates (scaling) of new enterprises across UK regions. For instance, the number of scaling start-ups in Scotland is half the UK average. In addition, account needs to be taken of the massive changes that occurred in the last few years in the UK entrepreneurship ecosystem. In relation to this point, he expressed skepticism as to whether the data used for the policy brief was sufficiently recent. Furthermore, he explained that the regional differences are also linked to human capital issues. He expressed concern with the fact that the best people from all the UK's regions move to London and nobody invites them to come back. This is a trend that needs to be reversed. While it is fine for the brightest people to go to London while in their 20s, given that London can offer a great working environment, regional governments should try to bring people in their 30s back from London so as to deal with the severe skills shortages experienced by some of the regions.

**Professor Saul Estrin** (LSE) noted that countries such as China and India have systematic policies for bringing people back, especially from the US. Subsequently to making this brief observation, he opened the floor for discussion.

**An academic** observed that there was significant emphasis on firm birth. However, firm death also needs to be discussed. When comparing the UK with the US, one will observe that the US exhibits higher rates of both firm birth and firm death. There are many relatively unproductive firms that

survive in the UK (so-called zombie firms), whereas the firms that survive in the US grow much more exponentially, partly because the weak ones are cut out of the market by fierce competition. Some of the firms in the UK that used to be very entrepreneurial, and grew very fast, now tend to be occupying monopolistic positions blocking the markets for new entrants. He further observed that product market competition, and in general competition in the market, is an important aspect that was not sufficiently discussed. He added that this was related to the noticeable productivity gap between the US and the UK. Moreover, he agreed with the point made by an earlier speaker, that part of the economic activity needs to be moved from the London area to other regions – for instance, to the north of the UK. Nevertheless, given the huge amount of agglomeration forces in London, the question is 'how do we do it?' While there is awareness that this needs to be done, solutions are elusive.

**An academic** acknowledged that there was an understanding that something needs to be done about the weaker regions in order to foster their development. Nonetheless, agglomeration economies are also very important and explaining this is part of the role of economists have. Perhaps the UK is very strong because it has significant inter-regional mobility as people come from all over the UK to a clearly defined center. Such inter-regional mobility cannot be found in other European countries such as Germany or Italy. Part of the strength comes from the fact that the entrepreneurial ecosystem benefits from the best people who come to London and self-select. This is difficult to replicate in other regions given the very strong underlying economic forces.

**An academic** expressed the view that the question is whether to try to move part of these agglomeration economies to the north, which is in case hard to do, or whether to undo some of the constraints that prevent more people coming to London; for example, the fact that housing in London is extremely expensive prevents some from moving to London. There is a trade-off to be had. Perhaps making more people come to London might actually increase efficiency but it may, at the same time, sharpen regional disparities.

**An academic** noted that when comparing ourselves to the US we should be aware that the inequality within the US is absolutely staggering and that the differences between the ‘Kansases’ and California are probably as dramatic, or even more dramatic than anything we can find in Europe.

**An academic** observed there was a need for more granularity when discussing entrepreneurship, given that the latter is such a heterogeneous phenomenon. There are many types of activities that fall under the umbrella of entrepreneurship, such as self-employment, bars, restaurants, small and medium-sized manufacturing activities, high-tech entrepreneurship, digital start-up activities, etc. These are all completely different animals.

**A government official** expressed surprise that most of the policy proposals were aimed at tweaking the strengths rather than fixing what was not working.

**An academic** remarked on the proposals related to patent protection (recommendations 1 and 2, Table 3 above). In her opinion it was odd to focus on patents in the context of entrepreneurship given that SMEs do not rely on patents as much as they rely, for instance, on copyrights, trade secrets and trademarks. Furthermore, she took issue with the use of the word infringement and with the idea of encouraging infringement of patents. She was of the view that the policy objective at issue could be better achieved by other means, such as increasing the patent renewal fees for patents that are not being commercialized. Consequently, those patents that are not commercially viable would not be renewed. The negotiation of license fees is another alternative. Thus, an option would be to seek to enable the entrepreneur to meet the patent holder in order to find a collaborative solution. As for open source patents, she was of the view that such patents work best in specific technology fields better than in others. For instance, open source works better where the innovation is cumulative. In any case, a lot of groundwork is needed for identifying those technologies where open source patenting could work. Finally, she proposed the establishment of so-called 'IP-free zones' as a new policy that could be considered. Through such IP-free incubators, budding enterprises could be enabled to function without being concerned about IP rights. This could be achieved by means of risk management and litigation insurance. As a trade-off, the companies operating in such zones would also not be entitled to protect their own intellectual property. She acknowledged that such an idea would be radical, but not unrealistic.

**An academic** intervened and noted that the link between IP rights, on one hand, and innovation and growth of start-ups, on the other hand, is positive rather than negative. He added that businesses would not invest in developing absent IP protection, and that it was difficult to imagine a world in which there is no protection for ideas and people still generate ideas.

**An academic** suggested that when talking intellectual property protection we should distinguish between different types of entrepreneurial enterprises. While IP rights may not matter for purposes of establishing a two-employees plumbing company, it may matter a lot for the emergence of the next ‘magic pony’. A further point he made was that the FIRES recommendations should be ‘future proof’. Thus, what the market will look like in 20 years should also be considered. For instance, developments in artificial intelligence should be taken into account.

**A venture capital investor** stated his strong disagreement with the idea of copying Silicon Valley. In addition, he expressed the view that the reason why Europe is probably lagging in entrepreneurship is that the venture capital system never really worked in Europe until recent times. Regarding IP protection, he explained that investors were interested whether the technologies developed by the firms they are investing in are protected. While understanding the rationale having IP-free zones, he maintained that from an investor’s perspective that would complicate things.

**An academic** commended the FIRES study on entrepreneurship in the UK. On the basis of the premise that entrepreneurial ecosystems are a regional phenomenon, he suggested that the FIRES proposals distinguish between the national level and regional level and focus more on what needs to be done at regional level.

**A participant** referred to the notion of inclusive entrepreneurship, which was included in the reform strategy (recommendation 6, Table 3 above). In this connection, she argued that supply side of investment also needs to be more diverse. Thus, she suggested that it was difficult to better include the entrepreneurs of color if all investors are white.

Referring to the recommendation concerning education, **one academic** expressed the view that there was an interesting tension between having a vibrant entrepreneurial ecosystem and what that means for the individual people involved. Choosing an entrepreneurial path is going to result in a negative outcome for most people. However, the more people become entrepreneurs, the better it is for the ecosystem overall. Therefore, we need to prepare the would-be entrepreneurs for the scenario in which things do not in the end work out for them. That means that the focus needs to be on continuous learning, as well as teaching them how to deal with failure. As for teaching creativity in school, this goes against the grain of the school system that focuses on achievement and measuring results.

Regarding finance, he took the view that the fact that the investment community in the UK comes from a finance background, as opposed to investors being former entrepreneurs themselves, is a downside of the fact that London is a leading financial sector. In his opinion, such investors with a finance background are not able to deal with early stage entrepreneurship. In this respect, the situation in the UK is different from the US where entrepreneurs are the ones who become venture capitalists. The investor who took the floor earlier intervened and expressed his complete agreement with this point.

**An academic** expressed his endorsement for the FIRES recommendations concerning education. He argued that entrepreneurial education is something for everyone not just entrepreneurs to be. In an entrepreneurial society everyone plays a part in engendering entrepreneurship, not just aspiring entrepreneurs. Additionally, he suggested that FIRES should also look into the regulation of data. That is important given the rise of artificial intelligence.

**An academic** noted that initially entrepreneurship was considered a policy in the context of which a particular economic activity would be tweaked. He then commended the FIRES researchers for sending the message that none of the specific policies are going to be as nearly as effective as having mainstream economic policies respecting entrepreneurial principles of creative destruction. Individual policies can be tweaked here and there but the much bigger ‘bang for the buck’ is to reform product markets, labor markets and education.

Following a very lively discussion, **one academic**, who had been tasked with this, summarized the remarks made and offered a few reflections of his own. Among the points he distilled from discussions were the following:

- Although the UK’s entrepreneurial ecosystem was showing signs of ill health, the situation was not dramatic.
- Further deregulation in the UK has diminishing returns.
- Entrepreneurship, as a term, is not sufficiently precise, as it may mean several different things. It may refer to a window cleaner with not employees, to a high-tech professionally-financed high-growth enterprise, or to people who are not starting a new venture but adapting an

existing process. It seems that we are lacking sufficiently modular language when discussing the relevant issues.

- The concentration of entrepreneurial resources in London is both a blessing and a curse. It is a curse, for instance, because it depletes regional resources. It is a blessing from the perspective, for instance, of comparative advantage and low transaction costs.

As for his own reflections, he suggested that work on entrepreneurship policy also take into account factors occurring more generally in the world that may affect national entrepreneurial ecosystems. Furthermore, he advocated for more focus on non-new venture entrepreneurship, such as process adaptation or intrapreneurship or process innovation.

## 7. Questionnaire Concerning the FIRES Reform Strategy for the UK

In the days following the policy roundtable we contacted via e-mail all the participants and asked them to complete a questionnaire concerning the 15 FIRES policy reforms for the UK (see Table 3 above). More specifically, we requested that they answer the 6 questions below:

- 1. Please rank the three proposals that are in your opinion the most important ones by assigning them numbers from 1 to 3, with 3 being the most important and 1 the least important. Please insert the numbers in the boxes preceding the title of the proposals.***

***Patents and Intellectual Property # 1***

***Knowledge Diffusion after Failure***

***Patents and Intellectual Property # 2***

***Knowledge Diffusion and Commercialisation***

***Taxation of Private Wealth***

***Creativity in primary and secondary education***

***Institutional Investors***

***Universities # 1***

***Banking***

***Universities # 2***

—  
 *Inclusive Entrepreneurship*

—  
 *Lifelong Learning Strategies # 1*

*Employment Protection Legislation*

*Lifelong Learning Strategies # 2*

*Digitalisation*

2. *Do you consider the implementation of the three proposals you have chosen to be politically feasible? Please check only one box.*

*Yes for all three*

*No for all three*

*No for two of them. Indicate which ones:*

*No for one of them. Indicate which one:*

3. *If you consider the implementation of any of the proposals you have chosen to be politically unfeasible, please indicate the title of the proposal(s) in the box below and explain why you think the implementation would be unfeasible.*

4. *Please rank the three proposals that are in your opinion the least important ones by assigning them numbers from 1 to 3, with 1 being the least important. Please insert the numbers in the boxes preceding the title of the proposals.*

*Patents and Intellectual Property # 1*

*Knowledge Diffusion after Failure*

*Patents and Intellectual Property # 2*

*Knowledge Diffusion and Commercialisation*

*Taxation of Private Wealth*

*Creativity in primary and secondary education*

*Institutional Investors*

*Universities # 1*

*Banking*

*Universities # 2*

*Inclusive Entrepreneurship*

*Lifelong Learning Strategies # 1*

*Employment Protection Legislation*

*Lifelong Learning Strategies # 2*

*Digitalisation*

**5. What is your general assessment of the reform package? (please check only one box)**

1                       2                       3                       4                       5

*Useless*

*Very useful*

**6. Other comments, if any**

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Seven persons completed questionnaire. Their responses are detailed below.

**Respondent 1** identified the proposals concerning the following three areas as being the most important ones (question 1): ‘creativity in primary and secondary education’ (most important); ‘universities #1’ (second most important); and ‘institutional investors’ (third most important). The respondent was of the view that the implementation of all three proposals was politically feasible (question 2 and 3).

As for the three least important proposals, Respondent 1 selected the following (question 4): ‘employment protection legislation’ (least important); ‘banking’ (second least important); and ‘taxation of private wealth’ (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for the UK (question 5), Respondent 1 selected '2'.

Respondent 1 made no 'other comments' (question 6).

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**Respondent 2** identified the proposals concerning the following three areas as being the most important ones (question 1): 'universities #1' (most important); 'institutional investors' (second most important); and 'employment protection legislation' (third most important). The respondent was of the view that the implementation of all three proposals was politically feasible (questions 2 and 3).

As for the three least important proposals, Respondent 2 selected the following (question 4): 'taxation of private wealth' (least important); 'patents and intellectual property #1' (second least important); and 'lifelong learning strategies #2' (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for the UK (question 5), Respondent 2 selected '2'.

Finally, Respondent 2 provided us with the following 'other comments' concerning the Reform Strategy for the UK (question 6):

I find that the wording of the proposal is poor, sometimes misleading. For example, #7 is precisely NOT about protection, but about labor flexibility, so that employment protection can be relaxed. Prop #1 is legally nonsense. Prop #3 makes little economic sense. Prop #11 is hopelessly vague.

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**Respondent 3** identified the proposals concerning the following three areas as being the most important ones (question 1): 'lifelong learning strategies #1' (most important); 'lifelong learning strategies #2' (second most important); and 'digitalisation' (third most important). The respondent was of the view that the implementation of all three proposals was politically feasible (questions 2 and 3).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for the UK (question 5), Respondent 3 selected '4'.

Finally, Respondent 3 offered us the following ‘other comments’ concerning the Reform Strategy for the UK (question 6):

There is value in educating the population in general about the possibilities [entrepreneurship] can create for oneself and to equip others. Also, more needs to be looked at in terms of the trade-offs between greater regulation and impeding entrepreneurial growth – Europe as a region will lose out to other global regions where regulations become impediments.

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**Respondent 4** identified the proposals concerning the following three areas as being the most important ones (question 1): ‘inclusive entrepreneurship’ (most important); ‘creativity in primary and secondary education’ (second most important); and ‘universities #1’ (third most important). The respondent was of the view that the implementation of all three proposals was politically feasible (questions 2 and 3).

As for the three least important proposals, Respondent 4 selected the following (question 4): ‘taxation of private wealth’ (least important); ‘knowledge diffusion and commercialisation’ (second least important); and ‘knowledge diffusion after failure’ (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for the UK (question 5), Respondent 4 selected ‘5’.

Finally, Respondent 4 offered us the following ‘other comments’ concerning the Reform Strategy for the UK (question 6):

Indeed, very useful and comprehensive in coverage.

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**Respondent 5** identified the proposals concerning the following three areas as being the most important ones (question 1): ‘lifelong learning strategies #1’ (most important); ‘patents and intellectual property #1’ (second most important); and ‘taxation of private wealth’ (third most important). The respondent was of the view that the implementation of all three proposals was politically feasible (questions 2 and 3).

As for the three least important proposals, Respondent 5 selected the following (question 4): ‘creativity in primary and secondary education’ (least important); ‘digitalisation’ (second least important); and ‘lifelong learning strategies #2’ (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for the UK (question 5), Respondent 5 selected ‘4’.

Finally, Respondent 5 offered us the following ‘other comments’ concerning the Reform Strategy for the UK (question 6):

I think the Brief raises an important point, which is underplayed, both in the presentation last week and in this survey: the underproduction of collective goods – in which the UK uniquely excels. What that implies is that too often innovative firms are left hanging. Instead of an atomised mass of small firms, who are good at one particular stage in entrepreneurship and innovation but often lack wider linkages into technology transfer, training, commercialisation, etc. Part of this might be government policy – but that would run up against a long-standing tradition in the UK for government not to be too close to individual (small) firms. What is needed, therefore, is also a strategy to build a series of relevant intermediary associations that can pick up those collective functions.

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**Respondent 6** identified the proposals concerning the following three areas as being the most important ones (question 1): ‘knowledge diffusion and commercialisation’ (most important); ‘knowledge diffusion after failure’ (second most important); and ‘lifelong learning strategies #1’ (third most important). The respondent was of the view that the implementation of all three proposals was politically feasible (questions 2 and 3).

As for the three least important proposals, Respondent 6 selected the following (question 4): ‘creativity in primary and secondary education’ (least important); ‘universities #2’ (second least important); and ‘lifelong learning strategies #2’ (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for the UK (question 5), Respondent 6 selected ‘4’.

Finally, Respondent 6 offered us the following ‘other comments’ concerning the Reform Strategy for the UK (question 6):

It's great to shine a light on the specific barriers and opportunities to a more entrepreneurial UK in this way, and to identify specific, tangible, interventions. The report is thorough, candid, clear and optimistic. The points made in the roundtable around definitions were important, i.e. if the problem we want to solve is productivity we need to be more precise about how to increase self-employment, faster adoption of process improvements and innovations, unlocking finance for great ideas. Fredrik Erixon's book *The Innovation Illusion* is great on this, as is Matt Ridley's Keith Joseph speech last year, as is Andy Haldane's work on 'productivity puzzles'. As with all public policy, 'First Do No Harm' should be the fundamental principle – the risk of unintended consequences is always great. As I made clear in my discussion points, I feel VERY strongly that while 'teaching creativity and entrepreneurship' is an appealing proposal, and a politically feasible one (and has been ever since this debate began, with the easy appeal of Rousseau's 'noble savage'), it has TERRIBLE unintended consequences in the very classrooms, which most need to be effective environments, to teach the best that has been thought and said and help poor kids be the authors of their own life stories. Creativity and entrepreneurship are the happy by-products of a rounded education and excellent teaching. They are not curriculum subjects. The best schools know this, teach maths, science, languages, music, art etc with rigour and passion, and nurture resilience and character and hinterland with sports and drama. From them come great entrepreneurs. The worse schools find teaching maths, science and languages hard, and teach music and art and English badly, though convince parents and Ofsted that they are focusing on self-esteem and creativity. From them come children at a huge life disadvantage, VERY badly equipped to do anything entrepreneurial.

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**Respondent 7** identified the proposals concerning the following three areas as being the most important ones (question 1): 'universities #2' (most important); 'digitalisation' (second most important); and 'knowledge diffusion after failure' (third most important). The respondent was of the view that the implementation of all three proposals was politically feasible (questions 2 and 3).

As for the three least important proposals, Respondent 7 selected the following (question 4): 'patents and intellectual property #1' (least important); 'taxation of private wealth' (second least important); and 'knowledge diffusion and commercialisation' (third least important).

When asked to rank on a scale from 1 to 5 the usefulness of the FIRES Reform Strategy for the UK (question 5), Respondent 7 selected '3'.

Finally, Respondent 7 offered us the following 'other comments' concerning the Reform Strategy for the UK (question 6):

This is an impressive and comprehensive report. I have learnt a lot from it. Going forward, there is an opportunity to advance a fine-grained discussion of its objectives; for example, does it seek to encourage local entrepreneurial ventures (e.g., local plumbing company) or the creation of global high-growth ventures (e.g., Magic Pony). I suspect a subset of the recommendations would be consistent with the latter, and a different subset would be aligned with the former.

## Analysis

Out of the 15 proposals for the UK, **each of the following 13 proposals was considered by at least one respondent to be part of the three top most important proposals** (question 1):

**'Institutional investors'** – selected by two respondents, who ranked it as the second most important proposal and third most important, respectively;

**'Creativity in primary and secondary education'** – selected by two respondents, who ranked it as most important and second most important, respectively;

**'Universities #1'** – selected by three respondents, who ranked it as most important, second most important and third most important, respectively;

**'Employment protection legislation'** – selected by one respondent, who ranked it as third most important;

**'Digitalisation'** – selected by two respondents, who ranked it as second most important and third most important, respectively;

**'Lifelong learning strategies #1'** – selected by three respondents, two of whom ranked it as most important whereas a third respondent ranked it as third most important;

**'Lifelong learning strategies #2'** – selected by one respondent, who ranked it as second most important;

**'Inclusive entrepreneurship'** – selected by one respondent, who ranked it as most important;

**'Patents and intellectual property #1'** – selected by one respondent, who ranked it as second most important;

**'Taxation of private wealth'** – selected by one respondent, who ranked it third most important;

**'Knowledge diffusion and commercialisation'** – selected by one respondent, who ranked it as most important;

**'Knowledge diffusion after failure'** – selected by two respondents, who ranked it as second most important and third most important, respectively;

**'Universities #2'** – selected by one respondent, who ranked it as most important.

The proposals concerning **'Banking'** and **'Patents and intellectual property #2'** were the only two proposals not included by any of the respondents within the group of the three most important proposals.

As can be seen, there was **very weak agreement among the respondents as to which proposals were the most important ones**. Thus, none of the proposals were selected by more than three respondents; two proposals were selected by three respondents; four proposals were selected by 2 respondents; whereas the rest of the 7 proposals were selected by only one respondent each.

Based on both the number of times it was chosen and on ranking, the proposal concerning **'lifelong learning strategies #1'** is to be considered the most important one (selected three times; ranked most important by two respondents, and third most important by one respondent). Based on the same criteria, the proposal concerning **'universities #1'** is to be considered as second most important (selected three times; ranked as most important, second most important and third most important, respectively), while the proposal concerning **'creativity in primary and secondary education'** is to be considered as third most important (selected twice; ranked as most important and second most important, respectively).

As for the political feasibility of implementation (questions 2 and 3), all of the respondents considered the proposals they had selected to be implementable. In other words, **none of the respondents raised any concerns regarding the political feasibility of the FIRES proposals for the UK**.

Out of the 15 policy proposals for the UK, **each of the following 10 proposals was considered by at least one respondent as part of the three least important proposals** (question 4):

**'Taxation of private wealth'** – selected by four respondents, two of them ranked it as the least important proposal, one ranked it as second least important, and one as third least important;

**'Banking'** – selected by one respondent, who ranked it as second least important;

**'Employment protection legislation'** – selected by one respondent, who ranked it as least important;

**'Patents and intellectual property rights #1'** – selected by two respondents, who ranked it as least important and second least important, respectively;

**'Lifelong learning strategies #2'** – selected by three respondents, all of whom ranked it as third least important;

**'Knowledge diffusion after failure'** – selected by one respondent, who ranked it as third least important;

**'Knowledge diffusion and commercialisation'** – selected by two respondents who ranked it as second least important and third least important, respectively;

**'Digitalisation'** – selected by one respondent, who ranked it as second least important;

**'Creativity in primary and secondary education'** – selected by two respondents, both of whom ranked it as least important;

**'Universities #2'** – selected by one respondent, who ranked it as second least important.

Based on both the number of times it was chosen and on ranking, the proposal concerning **'taxation of private wealth'** (selected four times; ranked least important by two respondents and second least important also by two respondents) **seems to be the proposal least valued by the respondents**. The proposal concerning **"lifelong learning strategies #2"** (selected three times; ranked third least important by all three respondents) and the proposal concerning **'creativity in primary and secondary education'** (selected twice; ranked least important by both respondents) **are also part of the group of the three least valued proposals**. It is difficult nonetheless to determine which of the two was less valued than the other, given that although the latter proposal was selected fewer times than the former, the two respondents who selected **'creativity in primary and secondary education'** expressed a stronger preference – It was ranked least important by both respondents, while all of the three respondents who selected **'lifelong learning strategies #2'** ranked it as third least important.

It is important to note that there is a **great overlap between the group of the most important proposals and the group of the least important proposals**. Thus, the following 9 proposals occur in

**both groups: 'taxation of private wealth'; 'employment protection legislation'; 'patents and Intellectual property #1'; 'lifelong learning strategies #2'; 'Knowledge diffusion after failure'; 'knowledge diffusion and commercialisation'; 'digitalisation'; creativity in primary and secondary education'; and 'universities #2'.**

When asked to rank on a scale from 1 to 5 the usefulness of the Reform Strategy for the UK (question 5), three respondents selected '4', two respondents selected '2', one respondent selected '5' and one respondent selected '3'. This warrants the conclusion that **a majority of the seven respondents found the Reform Strategy for the UK more useful than not.**

Regarding question 6, a number of six respondents provided us with 'other comments', which can be read in full above. It is worth noting that some of those comments are rather critical of the proposed reform strategy – see above the 'other comments' provided by Respondent 2. Nonetheless, positive reactions should also be noted – see above the 'other comments' provided by Respondents 4, 6 and 7.

## 8. Report from Roundtable on FIRES Deliverable 2.1: An Institutional Framework for Innovation and Entrepreneurship<sup>23</sup> (Brussels, 28 November 2017)

*Venue: Permanent Representation of Sweden to the EU*

### **Panel**

**Professor Magnus Henrekson** (Research Institute of Industrial Economics, Stockholm; FIRES)

**Slawomir Tokarsi** (Director, Directorate for Innovation and Advanced Manufacturing, Directorate General Internal Market, Industry, Entrepreneurship and SMEs (DG GROW), European Commission)

**Jakop Dalunde** (Member of the European Parliament, Group of the Greens, Member of Committee on Industry, Research and Energy – ITRE)

**Gunnar Hökmark** (Member of the European Parliament, Group of the European People's Party, Member of the Committee on Economy and Monetary Affairs – ECON)

### **Moderator**

**Jens Hedström** (Head of the Brussels office of the Confederation of Swedish Enterprise)

A list of all participants can be found in Annex IV to this report.

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The roundtable was opened by **Professor Magnus Henrekson** (Research Institute of Industrial Economics, hereafter 'IFN') who presented the reform agenda laid out in FIRES Deliverable 2.1<sup>24</sup>. Before presenting the specific policy recommendations made in Deliverable 2.1, Professor Henrekson explained that the main message of the report was that it is not enough to think about innovation alone. If one wants to spur more innovation, one needs to think about incentives, and not just for

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<sup>23</sup> Elert, Henrekson and Stenkula, n. 5 above.

<sup>24</sup> *Ibid.*

entrepreneurs, but also for other actors involved. What we need is more productive entrepreneurship, which in turn leads to more economic growth, more jobs and more social welfare. However, in order to generate more productive entrepreneurship a good ecosystem for entrepreneurship is needed. Therefore, different policy areas need to be addressed in a systemic manner, as opposed to considering each policy area in isolation. Professor Henrekson further observed that high impact entrepreneurship occurs at lower rates in Europe as compared to the US and China - measured for instance by the number of persons who became dollar billionaires by founding their own firm. Europe also has a significantly lower number of so-called 'unicorns' (recently founded firms by individuals valued at more than 1 billion \$) as compared to the US. The same is true with respect to the number of firms (founded by individuals since the 1990s) ranking among the largest 2000 firms in the world. That being the case, entrepreneurship policy should not focus on self-employment. A further point he made was that Europe has a variety of types of capitalism. Since there are 28 varieties of capitalism in the EU, when thinking about entrepreneurship policy, one has to start from where each country comes from. Additionally, in spite of what politicians might think, the government is not able to steer the development of the entrepreneurial ecosystem. Instead, it can only create good conditions for the ecosystem to develop, as the latter is experimental and self-organized. Finally, Professor Henrekson presented the recommendations for the 9 policy areas addressed in Deliverable 2.1 (see Table 4 below).

**Table 4: The General FIRES Reform Agenda**

#	Title	Description
1	<b><i>The rule of law and protection of property rights</i></b>	These are the most fundamental rules of the economic system, and all member states must ensure that they are stable and secure. With regard to intellectual property rights, an important balance must be struck between the interests of investors and the need for knowledge diffusion.
2	<b><i>Taxation.</i></b>	Many types of taxes affect entrepreneurial decisions. While tax rates should generally be low or moderate, policy makers should strive for simplicity rather than (targeted) concessions, and for a high degree of tax neutrality across owner categories, sources of finance and different types of economic activities.
3	<b><i>Savings, capital and finance</i></b>	These institutions should be reformed to support increased private wealth formation and the creation of a dynamic venture capital industry, as these are crucial sources of financing, particularly in the early stages of entrepreneurial projects. As a large share of savings in the economy currently goes into pension funds, it would be helpful to allow at least part of these assets to be invested in entrepreneurial firms and not just in real estate, public stock and bonds.

4	<b><i>Labor markets and social security</i></b>	Institutions should facilitate the recruitment of workers with the necessary competencies and reforms should strive to remove onerous labor market regulations. Overly stringent employment regulations may also spur actors in the entrepreneurial ecosystem to devise arrangements that circumvent the regulations, ultimately resulting in the emergence of an underground economy. Furthermore, incentives are best served by government income insurance systems that encourage activation, mobility and risk-taking. Social security institutions should enable the portability of tenure rights and pension plans as well as a full decoupling of health insurance from the current employer, to avoid punishing those individuals who leave tenured employment positions to pursue entrepreneurial projects.
5	<b><i>Regulation of goods and service markets</i></b>	Preventing market-leading incumbents from unduly exploiting their dominant market positions is essential. Lowered entry barriers are key to this reform area, as is the opening of those parts of the economy that are almost invariably closed to private production, such as healthcare and schooling. Within a well-designed system of public financing, sizeable private production and contestability should be encouraged.
6	<b><i>Bankruptcy law and insolvency regulation</i></b>	Entrepreneurial failure provides valuable information to other economic actors. Failed ventures must be discontinued so that their resources can be redirected to more productive uses. Bankruptcy law and insolvency regulation should therefore be relatively generous and allow for a “second chance”. However, filing for bankruptcy should not be too easy, as that encourages undue exploitation and destructive entrepreneurship, harming creditors and the rest of the community.
7	<b><i>R&amp;D, commercialization and knowledge spillovers</i></b>	R&D spending is only an input; for it to translate into economic growth, entrepreneurs must exploit the inventions and created knowledge by introducing new methods of production or new products into the marketplace. Therefore, instead of focusing on quantitative spending goals and targeted R&D support, policy should more generally make it easier to start and grow businesses.
8	<b><i>Incentives for human capital investment</i></b>	Policy should strive to create positive incentives for the individual to acquire knowledge and skills, whether through formal or workplace education. Incentives must also be developed by the education system itself to supply such opportunities. In this respect, the U.S. university system seems more responsive to the economic needs of society than European university systems. The U.S. system could be an important role model, as long as due attention is paid to European concerns regarding accessibility and equity.
9	<b><i>Informal institutions</i></b>	Informal institutions affect the workings of formal institutions but may also be important in their own right for fostering entrepreneurship. Norms and habits that facilitate cooperation and impersonal exchange must be strengthened, particularly with regard to trust. High-trust environments have been found to nurture market entry, enterprise growth and productive entrepreneurship. The extent to which policy can influence this development is nevertheless doubtful.

Following Professor Henrekson’s presentation, **Mr. Jens Hedström** (Moderator) observed that it was very hard to do everything at the same time. That being the case, he asked Professor Henrekson where

policy makers should start from and if any of the 9 policy areas addressed in Deliverable 2.1 were more important than others.

**Professor Henrekson** (IFN) responded that in most eastern European Member States it is fundamental to improve the rule of law and the judicial system, whereas in southern European Member States, given the high unemployment rates (for instance, in Greece), the services sectors need to be deregulated. As for northern and western European Member States, the one thing that needs to be fixed is the labor markets, which should be reformed and liberalized. However, that should be done without making people feel insecure. Hence, the labor market reforms must be synchronized with the social security systems.

**Mr. Hedström** (Moderator) introduced the other three members of the panel: **Mr. Slawomir Tokarsi** (European Commission); **Mr. Jakob Dalunde** (Member of the European Parliament; hereafter 'MEP'); and **Mr. Gunnar Hökmark** (MEP)

Subsequently, **Mr. Jens Hedström** (Moderator) asked Mr. Tokarsi the following questions:

- 'Are we doing enough to promote entrepreneurship and innovation?' and
- 'Are there areas on the European level [...] where the European Commission needs to do more to actually achieve a more competitive European Union?'

**Mr. Tokarsi** (European Commission) explained that innovation was getting increasingly complex, meaning that it is getting increasingly difficult also in terms of policy making. Innovation does not relate only to the industry, but also to SMEs, intellectual property rights and skills. Simply put, as a policy maker one needs to ensure that more people are working in the same direction, with the same objective. Regarding the second question, the 'Innovation Union' strategy was a collection of available actions, rather than a systematic approach that would look in a systematic way at all the drivers of innovation and trying to address them all. The reality is getting complex. This can also be seen in the way we are trying measure innovation. Hence, a lot of work is being done now on innovation scoreboards by which we are trying to determine if all that is happening on the ground can be measured in a proper way. Mr. Tokarsi further argued that some important paradigms of innovation were changing. He illustrated by recounting how at meeting he had recently attended at the LSE it was

stated that ranking efficiency above equality seems not to work anymore. Moreover, agglomeration effects in the EU and investments in areas with the highest growth potential is reaching its limits. Additionally, the stagnation experienced by an increasingly high number of regions in Europe has negative effects on politics. Hence, maybe we should start thinking differently and put equality before efficiency. By abandoning quite a lot of places in Europe we are losing a lot of potential for innovation. For instance, in the US, 85% of the investment in innovation is taking place in three areas: Silicon Valley, Boston and New York. That seemed excessive in Mr. Tokarsi's view.

Mr. Tokarsi also noted that in terms of innovation performance there was a small number of leaders in Europe, also a number of laggards, which is normal, but that in the middle there is a large number of firms, regions, and countries which are stagnating. While this fact is worrying, it also tells us that we should do more for diffusion, for reaching a critical mass of investment, and for more cooperation along value chains.

Mr. Tokarsi referred to two initiatives aimed at harnessing interregional cooperation for purposes of fostering innovation: the so-called 'Vanguard Initiative' and the 'Thematic Smart Specialization Platform for Industrial Modernization'. These initiatives adopted a bottom-up approach, in the sense that 'vanguard' is not created top-down, but it rather 'invents itself'. Mr. Tokarsi explained that a number of regions realized that it made sense to work together on one of the priorities of the Smart Specialization Strategy as they were missing some competences needed to be competitive, but which could be found in other regions. For instance, several regions taken together may have the requisite conditions for being competition in a certain sector but taken individually none of them would be competitive. He added that the Commission sees enormous potential in such an approach. That is why it created the Smart Specialization Platform where it is providing assistance to regions to get together and design a strategy, map the needed competences, create a business plan and obtain funding.

With respect to research, Mr. Tokarsi noted that there was a need for cooperative research, whereby big firms partner up with small firms. In addition, more policies are needed for fostering the development of skills that are missing. New technologies cannot be adopted if there is a lack of people possessing the requisite skills. Regarding regional policy, Mr. Tokarsi argued that more money needed to be invested into projects of inter-regional cooperation, like the 'Vanguard Initiative'.

Following Mr. Tokarsi's intervention, **Mr. Hedström** (Moderator) asked Mr. Dalunde (MEP) the following question: 'What do you think needs to be done in order to create a more competitive Europe in terms of entrepreneurship and innovation?'

**Mr. Dalunde** (MEP) remarked that there was great diversity among Member States in terms of conditions for entrepreneurship and innovation. Since what needs to be done in Bulgaria, or Portugal, or Ireland, or Sweden, is very different, it is not an easy task to come up with European solutions. Moreover, much of the sound advice Professor Henrekson has given is easier to implement on a national level rather than on a European level. However, what the EU can do, especially in the Horizon 2020 program ('H2020'), is to try to make sure that money goes to funding innovation that is easy to implement from an entrepreneurial perspective. One of the most important things to do in this regard is to keep the focus on excellence and continue to fund the kind of research that would not be able to be funded absent a European program. The goal of H2020 is to foster excellence and not to address regional diversity or social diversity. There are several other funds aiming to advance those latter two objectives. In Mr. Dalunde's view, it is important that:

- H2020 funds support research cooperation between different universities all over Europe that could lead to new entrepreneurial collaborations between different European cities or regions;
- EU funds infrastructure for innovation and entrepreneurship such as test beds that allow newer actors who have not had funding to test their new products;
- H2020 funds do not become corporate welfare and support the kind of research that corporations should be able to fund themselves; and that
- the program is able to support new actors.

Following Mr. Dalunde's remarks, **Mr. Hedström** (Moderator) asked Mr. Hökmark (MEP) the following question: 'Do you agree with what you have heard, or do you have other ideas about creating a more competitive Europe?'

**Mr. Hökmark** (MEP) replied that, in his opinion, no one could create a more competitive Europe. This is counter to the naïve belief in both Brussels and the Member States that this can be done by political initiative. Instead, this is a matter of creating an enabling environment. While it is true that there is no 'one size fits all', it is also true that some sizes fit all, meaning that some things are generally important.

For instance, less regulation and more openness for competition are crucial. Mr. Hökmark further remarked that although the EU's economy is slightly bigger than the one of the US (that is true only as long as the UK is an EU Member State) and much bigger than the Chinese economy, the EU has fallen behind both of them. A reason for that is that in Europe we love competition, but only until we get it. According to Mr. Hökmark, in Europe there are many big companies that are very close to the old structures of different kinds. For instance, it is striking that the big telecom operators always manage to influence policy so as to cater to their needs and purposes. Consequently, new comers have difficulties in entering the market. This is very obvious, in Mr. Hökmark's view. Similarly, everyone loves innovation until they see that it is rocking the existing balance. A known example is Ikea. It shocked the industry of furniture which was trying to block them out from the market. Hence, we need to not only love innovation, but we also need to love creative destruction, that is, the process of the old industries making way for the new industries. Liking the fact that old industries are leaving room for the new industries is a cultural aspect on which Europe differs from US and China.

**Mr. Hedström** (Moderator) noted that H2020 is the largest R&D fund in the world. Citing a statement from Deliverable 2.1 according to which 'money for research is not everything', Mr. Hedström asked Mr. Dalunde for his view on whether more public funds were needed for R&D, or whether he envisaged a differed solution.

**Mr. Dalunde** (MEP) agreed with the proposition that more money for R&D does not necessarily translate into entrepreneurship, given that the latter is dependent on the 'entrepreneurial climate' in the economic area at issue. Mr. Dalunde explained that he was interested not only in how to foster entrepreneurship but also in how to fund more research that would foster new innovation and new technologies that help solve societal challenges regardless of whether they are developed through entrepreneurship or not. In his view, it is clear that if we fund H2020 more, this will lead to more research projects and more new technologies being developed. There is political agreement between Member States to increase R&D funding. Mr. Dalunde sees that as necessary since our society is going through one of the most important challenges that we have ever faced as a species, and that is climate change. According to Mr. Dalunde, it is obvious that if we're going to solve this problem in the short amount of time we have, we need to fund more research, and particularly more research into green technologies.

**Mr. Höökmark** (MEP) intervened and remarked that the more we are funding science and research, the more science and research we will have, and that is crucial. However, that does not mean that we are funding more innovation. Mr. Höökmark further observed that the problems we are experiencing cannot be addressed without making any difficult decisions. There is also the mantra that we cannot do all things at the same time, but perhaps sometimes one needs to do all things at the same time otherwise the political energy will fade away. In his opinion, all Member States need to be told that they need to aim for lower company taxes, for lower taxes on jobs and stock options and to also open up markets for competition. According to Mr. Höökmark what is even more important is a cultural understanding that we need to rock the economy.

Following the remarks of Mr. Dalunde and and Mr. Mr. Höökmar, **Mr. Hedström** (Moderator) opened the floor to questions from the audience.

**A participant** remarked that the need to turn savers into investors is often discussed. Noting that pension funds had a lot of money, she asked whether some of that money could be better channeled into entrepreneurship. The US seems to have a different risk-taking culture from Europe in this regard.

**A participant** requested that the panel address the issue of matching good university students and risk capital.

**Mr. Dalunde** (MEP) took the floor and explained that there were two models for fostering risk taking. One is making sure that the ones who take the risk and succeed will be rewarded by low taxation, and the other one is ensuring that people who take risk do not end-up being 'dirt poor' if they fail. In Mr. Dalunde's opinion, the best solution is to combine the two models. Moreover, he expressed support for the idea of low taxes on stock options so as to make sure that people who are hired in new start-ups can be rewarded not necessarily with a big salary in the beginning but rather by allowing them to retain more of the benefits of the stock.

**Professor Henrekson** (IFN) explained that there was a need for intermediaries between pension funds and the entrepreneurial firms, given that pension funds cannot directly invest in firms that are at their early stages of development. However, pension funds could invest in venture capital funds, which in turn would select the firms in which to invest.

**Professor Mark Sanders (Utrecht University)** observed that there was a tension between investing in excellence and ‘the tide lifting all boats’ and asked for the panel’s view on whether we should prioritize efficiency over equity or the other way around.

**Mr. Dalunde (MEP)** was of the opinion that it was important to also recognize the inequality debate in this context, as we have not seen for decades wealth distribution inequality at such high levels as the ones we are currently experiencing. He was of the view that we could not just hope that very healthy individuals would use their money to fund new entrepreneurs as they can just as well buy boats, airplanes and islands. Hence, there is no problem in making sure that those who earn a lot of money pay their fair share of taxes in order to publicly fund universities that provide the workforce with skills and new knowledge that people can use to fund new firms. From a tax perspective, what is more important is to ensure that there are good incentives in place, and good conditions in the early stages of entrepreneurship, to enable people to fund their own firm. That is more important than reducing taxes on the ultra-wealthy and hope that they will fund entrepreneurs in the future.

**Mr. Höökmark (MEP)** observed that as opposed to the economies of the US and China, the European economy was not rapidly developing, and that all signs were pointing to that. An interesting phenomenon is, for example, that foreign direct investment in Europe occurs at extremely low levels compared to what it was 10 years ago. In order to attract investments, we need to create a truly entrepreneurial climate. Mr. Höökmark expressed his complete agreement with the proposition that excellence in research was a precondition for an entrepreneurial environment. However, he cautioned that that was not a precondition for innovation, that most innovations are not based upon excellence. For instance, Ikea was not science; H&M was not science; not even Spotify qualifies as excellence but rather as a small business idea. Thus, innovations are a smart way of using new or old knowledge.

Referring to the earlier questions and statements regards equity and inequality, **Professor Henrekson (IFN)** argued that it was difficult to tax the super wealthy. For instance, super wealthy persons who own stocks will establish an investment vehicle which will allow them to make changes to their stockholdings so they do not have to pay tax in the end. Additionally, wealth emigrates to other countries once taxes increase. Hence, the only way to redistribute their wealth is to make it possible for other people from below to compete with them. As for the question regarding risk capital and university students, Professor Henrekson opined that universities that are on the edge of technology



needed to have other agents around them, such as venture capitalists and other entrepreneurs who can pick up and absorb the new ideas. Whether the students will stay at the university and only be board members or consultants for the new firms, or whether they will become as partners in new companies, there is a need for an enabling ecosystem around them.

**Mr. Höökmark** (MEP) argued that the differences we can notice between the American, Chinese and European economies are a sign that we need to address the problems of the European economy, otherwise all competitive industries will step by step occur in other places other than Europe.

In the opinion of **Mr. Dalunde** (MEP), it is important to maintain the focus of the H2020 program on excellence and that it does not become an instrument for addressing regional or social imbalances. Instead, we need to make sure that the best research programmes are getting funded and that the knowledge generated is easy to turn into innovation and entrepreneurship.

## 9. Report on the Final FIRES Conference – *Institutional Reforms for and Entrepreneurial Society* (Brussels, 25 May 2018)

*Venue:* Royal Flemish Academy of Sciences, Brussels

A list of all participants can be found in Annex V to this report.

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The conference started with a presentation by **Professor Mark Sanders** (Utrecht University; FIRES) of the project and the FIRES 7-step approach to entrepreneurship policy making.<sup>25</sup> Professor Sanders' presentation was followed by the keynote address on 'The Need for an Entrepreneurial Society in Europe' delivered by **Professor David Audretsch** (Indiana University). Subsequently, **Professor Erik Stam** (Utrecht University; FIRES) gave a presentation with the title 'Diagnosis and Dialogue for Strengthening Entrepreneurial Ecosystems'. A fourth presentation was given by **Professor Laszlo Szerb** (University of Pecs; FIRES) and **Professor Attila Varga** (University of Pecs) who spoke on 'Assessing Europe's Entrepreneurial Ecosystems and Simulating Policy Interventions'.

The four presentations were followed by a panel discussion with the theme 'Institutional Reforms for an Entrepreneurial Society: A Research Assessment of the FIRES Approach'. The panel consisted of the following experts on entrepreneurship:

### ***Chair of the panel***

**Professor Erik Stam** (Utrecht University; FIRES)

### ***External Experts***

**Professor Friederike Welter** (President of Institut für Mittelstandforschung)

**Professor Reinhilder Veugelers** (KU Leuven)

**Professor Roy Thurik** (Erasmus University of Rotterdam)

### ***FIRES Researchers***

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<sup>25</sup> For an explanation of the FIRES 7-step approach see Marx, Suse and Sanders, n. 22 above.

**Professor Saul Estrin** (LSE)

**Professor Michael Fritsch** (Friedrich-Schiller-Universität Jena)

**Professor Claire Economidou** (Piraeus University)

**Professor Roy Thurik** commended the project. In his view, it is a great project and he expects that it will get a lot of praise. He explained that the project will also have a ‘secondary effect’, in the sense that it gives instructions to scholars about what to do next on entrepreneurship and growth. He further explained that the project contributes to the study of entrepreneurship in several respects. Thus, it addresses the many faces of entrepreneurship and the many faces of the economy, as well as the interplay between the entrepreneurship and the economy. Moreover, it focuses on the influence of context and its many dimensions. It takes into account the diversity of Europe, which is one of its virtues, and proposes ‘tailor-made’ recommendations that are expressed in a manner that allows policy makers to understand them. The project also takes a macro perspective on entrepreneurship. In this respect, he noted that one of the weaknesses of the scholarship on entrepreneurship is that it has not entered the field of macroeconomics. Furthermore, the project moves away from the country level and addresses the regional dimension. In addition to these points, Professor Thurik also noted that the empirical work on the long-run relation between entrepreneurship and growth is missing from the scholarship on entrepreneurship and that so far, such a relation, or link, has only weakly been established.

**Professor Friederike Welter** clarified that she would focus her intervention on two points: research relevance and research applicability. She observed that there was a general criticism that entrepreneurship policy is no longer relevant. However, this is not the case with FIRES, as contextualizing the research approach makes it both relevant and applicable. Furthermore, she expressed the view that the completion of the project was not the end of the work, but merely the beginning of the work. She explained that the project showed how policy interventions can be contextualized and this represents the beginning of new work in the field of entrepreneurship scholarship. Another matter Professor Welter appreciated is that the project showed that there are many ways of achieving an entrepreneurial society. The project also revealed how the ‘menu’ of policy interventions can be tweaked for making them country-specific and regional-specific. The research done in the context of this project is rigorous and data-driven. Moreover, it showed that the approach to policy making needs to be re-thought and that researchers need to be more open to dialogue with

policy makers. The project further showed how researchers might analyze and make use of regional data.

**Professor Erik Stam** briefly intervened and stated that once the implementation of the policies begins, they also need to be monitored in order to determine which of them work and which do not.

According to **Professor Reinhilde Veugelers** there are many things to be liked about FIRES, and especially the evidence-based approach. That is important as there are not sufficient studies on which policies work and which do not work. She expressed support for the focus of the project on regional ecosystems. She also appreciated that the project sought to identify the weakest links in the ecosystems. However, she expressed a word of caution about analyzing regional ecosystems. She explained that such an analysis carries the risk of missing the bigger picture and the inter-regional synergies. Furthermore, she wondered to what extent an ecosystem can be considered regional and observed that a sectoral approach is needed given that ecosystems for various sectors might not overlap. In her view, the analysis is too aggregated. Hence, more granular analysis is needed. She added that it would be interesting to conduct policy experiments with the FIRES approach, using control groups and policy counterfactuals. For the EU policy level, it would be interesting to understand what role can the EU level play in coordinating what is happening at regional level.

Following-up on Professor Welter's suggestion to be more entrepreneurial when it comes to entrepreneurship policy-making, **Professor Claire Economidou** agreed that there was a need to test what policies work. However, she observed that reforms are sometimes difficult to implement, and that they may even have unintended consequences. In her view, although researchers should be ambitious, one has to be humble and conservative when it comes to policy prescriptions given the pre-existent path-dependencies. She concluded by stating that although FIRES may not have all the answers, it constitutes a good first step.

**Professor Michael Fritsch** briefly explained the FIRES 7-step approach and noted in this regard that the history of the ecosystems and of the institutions are important in the analysis. Hence, we need to know more about the role of history and attitudes towards entrepreneurship. He explained that a strong correlation was found between past attitudes towards entrepreneurship in a given region and current prevailing attitudes. Thus, regions with strong entrepreneurial tradition are still performing strongly, even in places like East Germany where the entrepreneurial tradition was interrupted by

several decades of communism. As informal institutions are very difficult to change, a stronger focus on history and on informal institutions is needed. Therefore, we need to understand how the entrepreneurial cultures emerged. In order to illustrate the correlation between the current situation and historical developments, he explained that regions that were industrialized in the past (having big companies and few entrepreneurs) today have low levels of entrepreneurship.

**Professor Saul Estrin** noted that there were several big things we have learned from FIRES. For instance, we now have strong evidence that confirms the fact that as compared to the US and China, Europe is developing rather slowly on entrepreneurship and that it is lagging behind in adopting new technologies and in innovation. Since there is no hard, empirical evidence linking entrepreneurship and growth, the question becomes ‘why create a more entrepreneurial society?’ We got some answers from FIRES. One reason for fostering entrepreneurship is that well-being is at higher levels in entrepreneurial environments. We also learned that the relationship between entrepreneurship and the macro-level is context-dependent. Furthermore, the project has brought out the roles of history in shaping institutions. Professor Estrin also observed that the message given to policy makers was not an easy message, and that there is no role model to follow. One cannot just fly to Silicon Valley and copy what they are doing there. Referring to inclusiveness, Professor Estrin observed that there were two phenomena happening at the same time in the UK: a relatively successful entrepreneurial ecosystem and stark inequality. He explained that if someone in the UK wants to become a successful entrepreneur, they must to move to London. Although London has a great entrepreneurial environment, it is depleting Scotland of entrepreneurial resources. Therefore, there seems to be a trade-off between having globally competitive ecosystems and having equality.

Referring to Europe’s falling behind the US and China, **Professor Erik Stam** rhetorically asked whether Europe needs to catch up with US and China or whether there was an alternative European path.

**Professor Friederike Welter** agreed that context and history matter. However, she was of the view that history should not be used as an excuse for not reforming. While path-dependencies matter, we also need to look at where changes are going to occur.

Referring to an earlier comment that entrepreneurship is concerned with studying innovative new market entrants, **Professor Reinhilde Veugelers** emphasized that studying incumbent market actors is also important for entrepreneurship. That is so because it is important to better understand how the

new entrants interact with the incumbents. Being challenged by new entrants, the incumbents may start innovating. As for the relationship between growth and inclusiveness, she observed that growth creates inequality.

**Professor Saul Estrin** explained that changing formal institutions can be done quickly. However, informal institutions, which are very important, take time to change. He illustrated his point by explaining that western economists went to eastern European countries in the 1990s and prescribed policies that ultimately failed. Their policy recommendations failed because they were not culture-contextualized.

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A second panel was convened in the afternoon. The theme of the discussion was 'Institutional Reforms for an Entrepreneurial Society – A policy Perspective'.

#### ***Chair of the panel***

**Magnus Henrekson** (Research Institute of Industrial Economics)

#### ***External experts***

**Bert Kuby** (Head of Unit Commission for Economic Policy, Committee of the Regions)

**Stephan Raes** (Head of the Economic Affairs Department, Permanent Representation of the Netherlands to the EU)

**Ulla Engelmann** (Head of Unit Clusters and Entrepreneurship, European Commission)

**Jonathan Potter** (Senior Economist, OECD Centre for Entrepreneurship, SMEs and Local Development)

After introducing the members of the panel, **Professor Magnus Henrekson** made the following remarks. He explained that the EU fell behind both the US and China in terms of number of billionaire entrepreneurs, number of so-called 'unicorns' and number of large firms founded by individuals since 1990. In terms of the development of venture capital markets, the EU is far behind the US and at the same level as China. He further observed that in the EU there are large cross-country structural differences. Moreover, he emphasized that nobody can be in charge of the entrepreneurial ecosystem. Rather, ecosystems are self-organized and experimental. Therefore, the only thing that can be done

for fostering entrepreneurship is to create the conditions necessary for the ecosystem to thrive. That being the case, he cautioned against tampering with the self-selection process.

**Mr. Bert Kuby** commended the project and the very concrete policy recommendations put forward. In addition, he noted that there was agreement at the Committee of the regions that entrepreneurship needs to be fostered and that more experimentation with policy is needed for a growing, sustainable and inclusive economy. He also commended the data analysis conducted in the context of the project. He further observed that the project was evidence-based and that it analyzed a broad range factors that are relevant to entrepreneurship. Moreover, the project is based on a sound methodology. It does not only address the current state of affairs but also offers a historical perspective. He endorsed the acknowledgement that no one size fits all and the tailor-made proposals approach. He added that the regional focus makes the project credible and operational. However, he also noted some shortcomings of the project, such as ignoring the question of whether the regions have the administrative capacity of implementing the recommendation. In his view, the matter of scaling-up should have also been looked into. Other policy areas that, in his view, should have been addressed are sustainable development and digitalization. At the same time, he acknowledged that the scope of such a project cannot be extended too much. He further observed that the lack of an entrepreneurial mindset was a challenge for Europe.

According to **Mr. Stephan Raes**, scaling-up constitutes the main challenge in Europe. The thinking at EU level in the 1990s was that advancing the internal market will create conditions for scaling up. He questioned whether this was really true. In his view, if one followed the logic of FIRES they would not come up with the Services Directive. He further observed that policy makers had difficulties in dealing with the existing complexities and suggested that researchers help policy makers make sense of the relevant complexities. He added that it is important to consider the motivations and aspirations of entrepreneurs as no all entrepreneurs aspire to create high growth firms.

**Ms. Ulla Engelmann** commended the evidence-based approach of FIRES, as it is important for policy makers to have the relevant facts at their disposal. On the other hand, policy makers also experience an information overload. Although they are getting the research results, they do not always know what to do with them and what are the next steps. She lamented that often nothing happens to the research results once the reports are produced and published. Ms. Engelmann also commended the FIRES

methodology, emphasizing that she liked in particular the analysis of the historical roots of institutions. In her view, it is important to take this into account when developing country-specific recommendations. She noted that the European Commission is publishing every year country-specific fact-sheets on SMEs and inquired if researchers were aware of this. Ms. Engelmann also briefly presented a few Commission initiatives relevant to entrepreneurship, such as the Start-Up and Scale-Up initiative and the European Competence Framework for Entrepreneurship (the so-called EntreComp). She further observed that entrepreneurial education is important. Furthermore, she referred to women entrepreneurship and explained that Europe is experiencing low levels of women entrepreneurship (less than 30% of entrepreneurs are women). The European Commission is discussing whether women entrepreneurship should be fostered as opposed to more generally trying to foster entrepreneurship. For instance, women have more difficulty in accessing finance than men. Finally, she observed that entrepreneurs may have different motivations. A social entrepreneur would have a different motivation from one who aspires to create a high-growth firm.

**Mr. Jonatan Potter** also commended the FIRES approach. He noted that it was thorough, systematic, evidence-based, and that it lead to recommendations based on sound evidence. As for suggestions for improvement, he was of the view that more regional differentiation would be welcome, as the analysis at the regional level is still hiding significant variation. Furthermore, the authorities who need to implement the changes may be at a lower level – for instance, they may be at the city level. He added that there are bottlenecks that occur in all the regions. However, that does not mean that the response should come from the national level. The problems may have both very region-specific causes and region-specific solutions. Another suggestion he made was to consult more types of actors. He noted that the project was very much focused on founders of start-ups. Nonetheless, we should not only be interested in start-up, given that scale-ups and existing firms are also contributing to innovation. He further suggested that the ‘menu’ of policy interventions be discussed with the relevant stakeholders, as there can be alternative specific solutions to the identified problems. While, he broadly agrees with the analysis conducted in the context of the project, he suggested to emphasize more certain aspects, such as work force skills and local manifestations of the bottlenecks. As for the role of the OECD in fostering entrepreneurship institutional reform, he explained that the organization undertakes reviews in local economies so as to assess their transition to higher productivity, how they are renewing clusters, and what are the obstacles to renewal.

**Ms. Engelmann** explained that the European Commission has pilot projects on entrepreneurship education. However, since education is a competence of the Member States, the latter bear most of the responsibility in this regard.

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Following the second panel discussion, **Ms. Maarit Nyman** (Head of Unit COSME Programme, SME Envoys and Relations with EASME, European Commission) delivered the final keynote address. Her presentation mainly focused on the European Commission's SME policies and the COSME programme in particular (the EU Programme for the Competitiveness of Enterprises and SMEs).<sup>26</sup> She explained that the greater part (around 60%) of COSME's €2.3 billion budget was dedicated to financial instruments. She further explained that the European Commission is working together with the European Investment Fund for channelling the money to SMEs. She noted that COSME's budget is relatively small, meaning that it had to be used in an innovative, high impact manner. Moreover, she explained that the programme has a very inclusive approach as it aims at supporting all categories of SMEs, and that there is no specific focus on innovative SMEs or high-growth enterprises.

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<sup>26</sup> For a description and analysis of the COSME Programme see Philip De Man, Ward Munters and Axel Marx, *Entrepreneurship Policy: A Multi-dimensional and Multi-level Assessment*, FIRES Deliverable 6.1, 30 November 2016, p. 24 *et seq.*

## 10. Summary and conclusions

In this study, we primarily sought to gauge the views of a range of relevant stakeholders on the FIRES reform strategies for Italy,<sup>27</sup> Germany<sup>28</sup> and the UK,<sup>29</sup> in particular, but also on the more general reform agendas laid out in FIRES Deliverable 2.1<sup>30</sup>. More specifically, we aimed at gauging the views of the stakeholders on the merits of the proposals, the general usefulness of the three reform strategies, which of the proposals were the most important and which were the least important, and whether any of the proposals raised concerns regarding their political feasibility.

Regarding the political feasibility of implementing the reform strategies for Italy, UK and Germany, respectively, the consulted stakeholders raised concerns with respect to nine proposals (out of a total of 47 proposals): five of which concern Italy ('the rule of law'; 'knowledge generation'; 'education in the entrepreneurial society'; 'employment protection legislation #1'; and 'universities'), whereas the other four concern Germany ('employment protection legislation #1'; 'social insurance systems #2'; 'knowledge diffusion and commercialization'; and 'taxation of private wealth'). No concerns were raised with regard to the political feasibility of the proposals for Italy.

As for the general usefulness of each of the three country-specific reforms strategies, a majority of the respondents to the questionnaires found each of the reform strategies to be more useful than not. Moreover, the stakeholders also suggested other policy areas that may be relevant for entrepreneurship policy, but which were not addressed in the strategies, such as: public procurement, data regulation and environmental protection.

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<sup>27</sup> Sanders et al., n. 2 above.

<sup>28</sup> Sanders et al., n. 3 above.

<sup>29</sup> Sanders et al., n. 4 above.

<sup>30</sup> Elert, Henrekson and Stenkula, n. 5 above.

## **Annex I: Entrepreneurship Policy Round Table on the FIRES Reform Strategy for Italy (Rome, 5 March 2018) – List of Participants**

**Mattia Corbetta**, Policy Advisor on Innovation and Startups, Directorate General for Industrial Policy, Competitiveness and SMEs, Italian Ministry of Economic Development

**Silvia Magri**, Senior Economist, Bank of Italy

**Mauro Bellofiore**, Head of Office for Analysis of the Impact of Regulation, Italian Companies and Exchange Commission

**Salvatore Zecchini**, Chair of OECD Working Party on SMEs and Entrepreneurship

**Fulvia Farinelli**, Senior Economist, UNCTAD – Economic Affairs Officer Entrepreneurship Unit

**Fabio Gallia**, Chief Executive Officer, CDP

**Antonella Baldino**, Chief Business Officer, CDP

**Marco Zizzo**, Equity Investments Director, CDP

**Maria Elena Perretti**, Senior Researcher, Ufficio Industria e Infrastrutture - Servizio Studi, CDP

**Silvia Keller**, Analyst, Affari Societari e Istituzionali, CDP

**Davide Ciferr**, Researcher, Servizio Studi, CDP

### ***FIRES Researchers***

**Professor Mark Sanders**, Utrecht University

**Professor Erik Stam**, Utrecht University

**Professor Luca Grilli**, Politecnico di Milano

**Andrei Suse**, KU Leuven

## **Annex II: Round Table ‘Mittelstand’ (Berlin, 24 April 2018) – List of Participants**

**Wolfgang Dürig** Leibniz Institute for Economic Research

**Dr. Marc Evers**, The Association of German Chambers of Commerce and Industry

**Dr. Sandra Gottschalk**, The Centre for European Economic Research

**Dr. Vivien Lo**, KfW Bankengruppe

**Dr. Till Proeger**, IFH Göttingen, Volkswirtschaftliches Institut für Mittelstand und Handwerk an der Universität Göttingen e.V.

**Prof. Dr. Joachim Ragnitz**, IFO institute

**Prof. Dr. Sabine Rau**, ESMT Berlin

**Dr. Michael Rothgang**, Rheinisch-Westfälisches Institut für Wirtschaftsforschung e. V. (RWI)

**Dr. Susanne Schlepphorst**, Institut für Mittelstandsforschung (IfM) Bonn

**Dr. Viktor Slavtchev**, Institut für Wirtschaftsforschung Halle (IWH)

**Christof Starke**, RKW Kompetenzzentrum

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## **Annex III: Entrepreneurship Policy Round Table on the FIRES Reform Strategy for the UK (London, 26 April 2018) – List of Participants**

**Susana Frazao Pinheiro**, University College London

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**Al Bhimani**, LSE

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**Jonathan Levie**, Hunter Centre for Entrepreneurship, University of Strathclyde

**Luca Zurlo** Voluntres, VC

**Thomas Hellmann**, University of Oxford, Said Business School

**Pamela Dow**, Catch 22

**Gary Dushnitsky**, London Business School

**Ute Stephan**, Aston Business School

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**Olmo Silva**, LSE

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**Gilly Wiscarson**, Entrepreneurs Accelerator, Kings College London

**Siva Thambisetty**, LSE

**Jon Deer**, LSE Research Division

**Bonnie Chiu**, The Social Investment Consultancy & Lensational

**Angelina Cannizzaro**, Department for Business, Energy and Industrial Strategy

**Stephan Chambers**, LSE Marshall Institute

**Errko Autio**, Imperial College London

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**Andrei Suse**, KU Leuven

## **Annex IV: Roundtable on FIRES Deliverable 2.1: An Institutional Framework for Innovation and Entrepreneurship<sup>31</sup> (Brussels, 28 November 2017) – List of Participants**

**Agnès Leroux**, Acumen Public Affairs

**Alessandro Sciamarelli**, EuroCommerce

**Anette Sonnback**, Mid Sweden European Office

**Anna Lederer**, European Parliament

**Ann-Charlotte Hedström**, Karriärmakaren

**Ann Marie McCourt**, ECR Group, European Parliament

**Bengt Wennerstein**, Permanent Representation of Sweden to the EU

**Bjorn Hultin**, Intercity Consulting

**Bo William Åmell**, Swedish Investors' Club

**Caroline Eriksson**, City of Gothenburg European Office

**Charlotte Olsson-Altansunar**, European Commission

**Eckhard Binder**, European Commission

**Eeva Kolehmainen**, Secretariat of the Employers' Group, European Economic and Social Committee

**Einar Døssland**, Mission of Norway to the EU

**Elina Yrgård**, Nasdaq

**Elisabeth Precht**, Research Institute of Industrial Economics, Stockholm

**Emma Lund**, Confederation of Swedish Enterprise

**Erik Svensson**, European Economic and Social Committee

**Francesca Melillo**, KU Leuven

**Frédérique Biston**, Volvo Group

**Georg Danell**, Kreab

**Gernot Haas**, Federation of Austrian Industries

**Hilda Grönvall**, Mid Sweden European Office

**Ilari Kallio**, Confederation of Finnish Industries EK

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<sup>31</sup> Elert, Henrekson, and Stenkula, n. 5 above.

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**Janne Peltola**, Permanent Representation of Finland to the EU  
**Johan Södergren**, Region Örebro län  
**Johanna Bond**, Central Sweden European Office  
**Jukka Ahtela**, European Economic and Social Committee  
**Juras Stankevich**, European Parliament  
**Jürgen Tiedje**, European Commission  
**Karin Jungerhem**, Svenska Fackliga Brysselkontoret  
**Karl Isaksson**, Kreab  
**Katarzyna Bitka**, European Commission  
**Kinga Grafa**, Polish Confederation Lewiatan  
**Kristina Olausson**, ETNO - European Telecommunications Network Operators' Association  
**Kristofer Du Rietz**, European Commission  
**Magnus Collin**, jaktkit.com  
**Marcus Dejardin**, CERPE - University of Namur and Université Catholique de Louvain  
**Ludwig Lindmark**, Central Sweden European Office  
**Marilou Denis**, Mission of Canada to the EU  
**Mathilda Bergman**, Federation of Swedish Farmers – LRF  
**Mats Marcusson**, European Commission  
**Mikael Persson**, The Swedish Bus and Coach Federation  
**Mira-Maria Kontkanen**, Federation of Finnish Enterprises  
**Ola Andersson**, NAO Consulting  
**Oliver Cusworth**, European Investment Bank  
**Patrick Dsouza**, European Commission  
**Patrik Renberg**, Region Värmlands European Office  
**Peter Wessman**, European Commission  
**Peter Olson**, Ericsson  
**Petra Sundqvist**, City of Malmö EU Office  
**Petri Holopainen**, The Federation of Finnish Enterprises  
**Reinhilde Veugelers**, KULeuven  
**Rickard Eksten**, Scotland Europa



**Sanna Sjöblom**, European Commission

**Sidsel Holst**, Confederation of Danish Industry

**Silvia Caneva**, EUROCHAMBRES

**Sofie Lundell**, Stockholm Region EU Office

**Sofie Dahlin**, Confederation of Swedish Enterprise

**Sven Kastö**, Småland Blekinge Halland South Sweden

**Ulla Karvo**, Association of Finnish Local and Regional Authorities

**Urszula Sieradzka**, Mannheimer Swartling

**Victor Sand Holmberg**, Mannheimer Swartling

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## **Annex V: Final FIRES Conference – Institutional Reforms for and Entrepreneurial Society (Brussels, 25 May 2018) – List of Participants**

**Jukka Ahtela**, European Economic and Social Committee

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**Simone Baldassarri**

**Mirja Calgaro**

**Bart Candele**, Vlaio

**Silvia Caneva**, EuroChambers

**Magnus Collin**, jatkit.com

**Danila Conte**, European Commission

**Michael Cottakis**, LSE

**David Cruz e Silva**

**Mario Damo**

**Marcus Dejarding**, University of Namur & Université catholique de Louvain

**Bernard Depotter**, Vlaio

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**Ralph Engel**, FIRES Reviewer

**Ulla Engelmann**, European Commission

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**Concetta Esposito Abate**, UCR Regione Campania

**Elpie Fampiou**, Piraeus University

**Horst Fischer**, European Entrepreneurs, Brussels

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**Sandra Hanning**

**Tine Holvoet**, Vlerick Business School

**Bert Kuby**, Committee of the Regions

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**Tiiu Madal**, Association of Estonian Cities and Municipalities

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**Maria Montoiro Salvado**, Cortes de Castilla y León / CALRE

**Pamela Niese**

**Maarit Nyaman**, European Commission

**Friedemann Polzin**, Utrecht University

**Joanthan Potter**, OECD

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**Gerarda Westerhuis**, Utrecht University  
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# Manuscript Submission Report

Axel Marx

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## Title

Contributions to introduction, conclusion and separate chapter

Title separate Chapter: *Opening Pandora's Box. What does institutional reform imply for policy-makers?*

## Abstract

***Opening Pandora's Box. What does institutional reform imply for policy-makers?***

This chapter will show that 'policy' is a complex concept involving multiple levels, actors and instruments which each have significant limits on their degrees of freedom to pursue significant policy reform. The implications of this simple observation for institutional reform are twofold. First, the idea of institutional reform operates on very different levels of aggregation (a bit akin to different levels of units of analysis for research). Institutional reform in the varieties of capitalism research operates on a very high level of aggregation and abstraction. Institutional reform in the FIRES approach operates on a lower level of aggregation splitting reforms out in different policy areas, but still remains abstract. However, institutional reform on the level of policy-making operates on the levels of specific rules and instruments. It is on the latter level that policy-makers expect recommendations. Linking these different levels on which policy/institutional reform can be pursued is not self-evident and a complex exercise which might explain the mismatch between expectations from policy-makers on the one hand and recommendations made by researchers on the other hand. A second key implication for reform is how different policy actors can pursue reforms in a coherent way taking into account multiple actors, levels and instruments.

The chapter will illustrate this argument further by focusing on EU entrepreneurship policy in a strict sense. The multiple dimensions of an EU comprehensive entrepreneurship policy have only recently been identified and addressed as a truly distinctive policy area, mainly through the adoption in 2013 of the Entrepreneurship 2020 Action Plan, which sets out the initiatives to be undertaken by the Commission for the period until 2020. This explicit recognition of entrepreneurship as a distinct policy area in this key document is mirrored in its inclusion as one of the four key areas of the recently created Directorate-General for Internal Market, Industry, SMEs and Entrepreneurship (DG GROW). By virtue of its tasks of devising the EU entrepreneurship policy and monitoring its implementation, by both the EU and the national, regional and local administrations of the Member States, the Commission is the central actor that needs to be analyzed in the context of the reform agenda. However, the EU competencies on entrepreneurship policy are almost entirely either shared with Member States or supporting competences. Hence, nearly all proposals aiming to reform the European entrepreneurship policy must be in keeping with the principle of subsidiarity, which holds that in areas falling outside of the scope of the EU's exclusive competences, the EU shall act only when the proposed action cannot be satisfactorily achieved at Member State level. Therefore, the most appropriate level of governance for taking a specific action within the context of the entrepreneurship policy may be the EU, the central government of a Member State, or local authorities within Member States, depending on the policy area and type of action taken, as identified throughout this report. The wide variety of policy areas pertaining to entrepreneurship promotion that do not fall within the scope of EU exclusive competence underscores the importance of optimising the existing channels for coordination between the supra-national and national levels of governance. Moreover, the devolvement, in varying degrees, of those competences to the regional and local levels throughout the Member States also calls for a significant degree of coordination between the EU and the subnational level. To be sure, even the most conspicuous top-down instruments used by the Commission in this area (e.g. European Structural Investment Funds) rely considerably on subnational actors and their political will for implementation. Thus, the inclusion in the proposed reform agenda, of bottom-up perspectives, initiatives and processes, will prove crucial in enacting effective and efficient structural reforms. In any case, ensuring optimal coordination will require not only significant resources and the cooperation of a very large group of varied and dispersed interlocutors, but also careful and inclusive political positioning.



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