

## B 4-1 Start-ups

### Importance of start-ups

Business start-ups contribute significantly to raising productivity and to economic growth. The Commission of Experts has repeatedly pointed out that innovative products, processes and business models are often developed and implemented especially in new companies. In this way, start-ups secure the creation of jobs in Germany by generating local value added. As new competitors, they also force established companies to further develop their products, services and processes. Designing a founder-friendly framework must therefore be a key objective of political decision-makers.<sup>198</sup>

The start-up rate, i.e. the number of start-up businesses as a percentage of the total number of companies in Germany, is low by international comparison (cf. Figure B 4-1-1). Moreover, the start-up rates in the knowledge economy have been declining for years (cf. Infochart B 4).<sup>199</sup> In the same period, the death rates in the knowledge economy have remained constant.<sup>200</sup>

### Promotion of innovative start-ups

There are several funding programmes at the federal level to support start-ups: EXIST, High-Tech Gründerfonds, GO-Bio, and the ERP Start-up Fund (cf. p. 84f.).

The funding programme ‘EXIST – Existenzgründungen aus der Wissenschaft’ (Start-ups from Science), which was launched as early as 1998, aims “to improve the funding environment in universities and non-university research facilities. In addition, the number of technology-oriented and knowledge-based business start-ups is to be increased.”<sup>201</sup> EXIST has been extended by a number of funding programmes since its introduction. Most recently, the funding for entrepreneurial teams from tertiary education institutions was increased in 2014.<sup>202</sup>

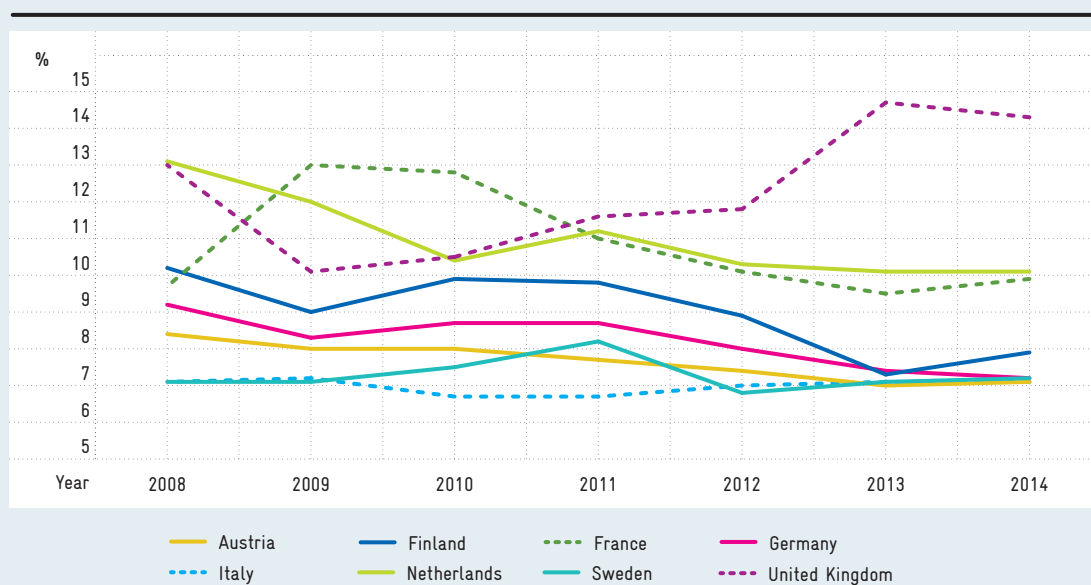
The HTGF – ‘High-Tech Gründerfonds’ (High-Tech Start-up Fund) is a fund created as a public-private partnership by the BMWi, the KfW and several major German companies. The HTGF has been investing in technology-oriented start-ups without any restrictions to specific industries since 2005. In 2017, the third HTGF (HTGF III) will be launched with a volume of 300 million euros. According to the BMWi, the participation of private companies in HTGF III is to be significantly expanded compared to the previous two funds.<sup>203</sup>

The ‘GO-Bio Gründungsoffensive Biotechnologie’ (Start-up Offensive in Biotechnology) was launched in 2005 as a funding programme specifically for teams of researchers prepared to start businesses in the field of life sciences. It takes into account the long development periods and considerable financial requirements that are typical of biotechnological research projects. It aims to offer extensive support to prepare research teams for the activities involved in founding a company.<sup>204</sup>

The Commission of Experts rates the above-mentioned funding programmes as important support instruments for young companies. It considers the EXIST funding programme and GO-Bio important measures for creating a start-up-friendly environment in tertiary education institutions and non-university research organisations. In the last few years, the HTGF has continuously contributed to the financing of young companies in their early stages.

However, the Commission of Experts simultaneously repeats its criticism of the decision, taken in 2011, to convert the Federal Employment Agency’s instrument of the start-up subsidy from a mandatory into a discretionary measure. This change has been critically commented on by labour-market researchers.<sup>205</sup> In addition, the Commission of Experts points out that this change in the law could have a negative impact on the start-up culture in Germany and reduce the motivation of the unemployed to show initiative.<sup>206</sup>

Development of percentage start-up rates in selected European countries from 2008 to 2014



Source: Business Development Statistics (Eurostat). Calculations by ZEW (Centre for European Economic Research).

Fig. B 4-1-1

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Indeed, the number of start-up subsidies granted fell from 134,000 in 2011 to just over 20,000 in 2012 and rose only slightly to 31,000 in the following two years.<sup>207</sup>

### Framework conditions and start-up culture in Germany

The likelihood and propensity of a person to launch a start-up is influenced by institutional framework conditions. In the view of start-up experts in business, science and politics, Germany has a number of advantages to offer, e.g. the physical infrastructure, effective public funding programmes, and well-developed institutions for the protection of intellectual property. The availability of technically competent consulting firms and suppliers also makes the country attractive as a business location. Furthermore, German consumers and companies are considered inherently open to innovative new products and services.<sup>208</sup>

Disadvantages are seen especially in start-up training in school and to some extent in out-of-school education.<sup>209</sup> Despite an increasing number of programmes to promote entrepreneurial thinking in schools,<sup>210</sup> school-based start-up training is regarded as one of Germany's greatest weaknesses as a start-up location.<sup>211</sup>

Activities in the field of start-up training have been intensified at many German tertiary education institutions since the 1990s, although awareness of the issue is being raised mainly in study courses relating to economics. In the Commission of Experts' assessment, awareness of the topic of founding a new company is still relatively low, and there is little teaching with start-up-relevant content, in the natural sciences and engineering.

Yet both tertiary education institutions and non-university research organisations are considered to have significant start-up potential which would be economically worthwhile developing.<sup>212</sup> The Commission of Experts does not see any inherent contradictions between the first two tasks of scientific institutions (teaching and research) and the third task (transfer of knowledge and technology). Rather, these tasks are complementary.

The Federal Government launched the above-mentioned EXIST programme back in 1998 to support the third task.<sup>213</sup> An up-to-date evaluation report on the funding programme attests significant progress at the tertiary education institutions examined, and recommends the continuation of the funding programme. However, the report also criticises the fact that there is still considerable room for improvement in structures and staffing levels devoted to carrying out the

third task at many tertiary education institutions.<sup>214</sup> However, EXIST funding and other promotional activities have led to a gradual change in awareness at tertiary education institutions.<sup>215</sup>

The Commission of Experts welcomes evidence indicating that start-up failures are becoming less stigmatised in society than they used to be. In fact, many companies regard experience with a failed start-up as valuable know-how.<sup>216</sup>

### Administrative barriers

There have repeatedly been complaints about the high administrative hurdles for start-ups in Germany.<sup>217</sup> The red tape involved in starting a business in Germany is indeed greater than in all other industrialised countries. In a global comparison of the administrative costs of a start-up, the World Bank ranks Germany 114th among the 190 countries covered.<sup>218</sup> By contrast, the administrative costs of running an existing company are comparatively moderate. In this case, Germany is placed 17th in the World Bank's Doing Business Ranking.<sup>219</sup>

The impression of high administrative costs is confirmed by statements made by business founders in Germany. When asked about their expectations from political decision-makers, the participants in the German Startup Monitor give top priority to the reduction of bureaucratic and regulatory hurdles (20.3 percent). Expectations relating to tax relief and assistance with capital procurement follow a long way behind (13.5 percent).<sup>220</sup>

In order to offer companies and founders simplified access to administrative information and procedures and thus cut red tape, since 2009 the EU member states have been obliged to set up a so-called Point of Single Contact,<sup>221</sup> where companies can take care of all the necessary procedures and formalities. However, in an inner-European comparison, Germany comes last in the implementation of the Point of Single Contact.<sup>222</sup> In December 2015, therefore, the Meeting of German State Economic Ministers decided on the strategic realignment of the Point of Single Contact on the basis of common organisational principles.<sup>223</sup> The aim is to implement the Point of Single Contact 2.0 project by the end of 2017 under the leadership of the Federal Government and the state of Hesse.<sup>224</sup>

The administrative practice of some state funding programmes represents a special problem. Although public funding programmes in Germany are regarded as effective in principle (cf. p. 81), there is criticism from young companies financed by venture capital. For example, companies must prove their credit rating for the duration of a project in order to qualify for funding. This credit check is necessary as the companies usually do not receive full financing, but must raise a certain proportion of the project costs themselves. In practice, it has been shown that the formal requirements for the credit check are often interpreted restrictively. This restrictive practice becomes a problem for companies financed by venture capital, because they can usually only prove their credit rating for the limited period of a financing phase. Due to this uncertainty, the project administration frequently decides against funding innovative, venture-backed companies.<sup>225</sup>

In addition, companies taking part in a funding programme must prove that they run the state-funded project activities separately from their actual businesses. This separation between project and business activity is difficult to guarantee, especially for small and micro businesses.<sup>226</sup>

### Lack of a Europe-wide legal form

In the Commission of Experts' assessment, the absence of a legal form for small businesses that is valid Europe-wide is another obstacle to growth for companies. While the legal form of the European public limited company (*Societas Europaea*) is used by many large companies, no agreement has yet been reached on a European corporate form for the private limited company. As a result, a company that wants to expand its business activities across Europe has to form a separate company in each country. This process involves considerable organisational and financial effort.<sup>227</sup>

