



GrowthPlus
Europe's
Top 500 Job Creating Entrepreneurs

white paper

THE GROWTHPLUS
RESPONSE
TO THE CONCLUSIONS
OF THE LISBON
AND FEIRA
EUROPEAN COUNCILS

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THE GROWTHPLUS RESPONSE TO THE CONCLUSIONS OF THE LISBON AND FEIRA EUROPEAN COUNCILS

GrowthPlus, Europe's leading association for dynamic, job creating entrepreneurs, welcomes the conclusions of the Lisbon and Feira summits of the European Council. They represent a recognition of the critical importance of entrepreneurs for wealth creation and for jobs.

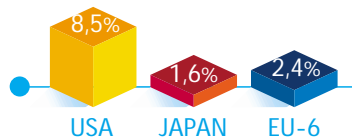
We endorse the Council's aspiration that the EU should become the most competitive and dynamic knowledge-based economy in the World. GrowthPlus also welcomes, as a useful first step, the EU's new Charter for Small Enterprises.

But more needs be done if these new policy goals are to be achieved.

Entrepreneurs are 'tradition-breakers' and risk-takers. They play a pivotal role in revolutionising existing markets and creating new ones. GrowthPlus' Annual Listing of the *Europe's 500*, shows that fast-growth companies are also major job creators. Europe's problem is that it has too few entrepreneurs and too few fast-growth companies. Europe faces an 'entrepreneurial deficit'.

Start - ups

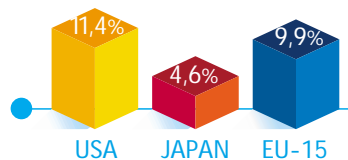
% of adults who have participated in business start-ups



Source: Global Entrepreneurship Monitor, The Kauffman Centre for Entrepreneurial Leadership

Rate of New Company Formation

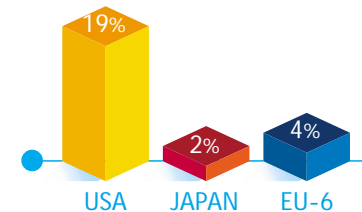
New Companies as a percentage of existing companies



Source: The European Observatory for SMEs

Fast-Growth Companies

Number of 'fast growing' companies as a percentage of all mid-sized companies



Source: EIM Small Business Research & Consultancy

The European Council is right to emphasise the need for wide-ranging structural reform. But more must be done in the short-term.

Europe's fiscal and regulatory frameworks fail to promote entrepreneurship. They fail to reward risk takers. They stigmatise failure. And, they raise the costs of creating, acquiring and growing new businesses.

In our White Paper, GrowthPlus sets out a programme of short-term changes to improve the way Europe's entrepreneurs and enterprises are taxed and regulated. It identifies fiscal and regulatory reforms that will help to expand funding opportunities, enhance human capital, and improve the overall business environment. Taken together, this programme complements the decisions taken at Lisbon and Feira and provides policy-makers with a way of achieving real improvements in the scale and impact of entrepreneurial activity in the short-term.

GROWTHPLUS IS A PAN-EUROPEAN ASSOCIATION WHICH AIMS TO PROMOTE ENTREPRENEURSHIP THROUGHOUT EUROPE AND ADVISE POLICY MAKERS ON HOW TO IMPROVE THE ENVIRONMENT FOR GROWTH COMPANIES. WITH ITS CHAPTERS IN AUSTRIA, FRANCE, GERMANY, ITALY, SPAIN AND THE NETHERLANDS, THE ASSOCIATION ALSO PROVIDES EDUCATION AND NETWORKING OPPORTUNITIES FOR ENTREPRENEURS LEADING HIGH-GROWTH COMPANIES. ACTIVITIES OF THE ASSOCIATION INCLUDE: THE ANNUAL EUROPE'S 500 LISTING, IDENTIFYING THE 500 FASTEST GROWING COMPANIES IN EUROPE, RESEARCH REPORTS OUTLINING STRATEGIES USED BY GROWTH COMPANIES AND THE CHALLENGES THEY FACE, AND AN ANNUAL CONFERENCE.

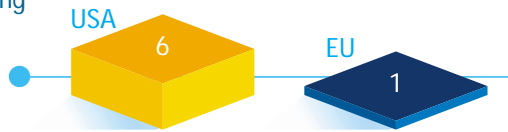
PEOPLE

In modern, knowledge-driven economies, entrepreneurs succeed because they recruit, retain, and develop high-calibre people who can utilise financial, intellectual, and technological resources to exploit new opportunities.

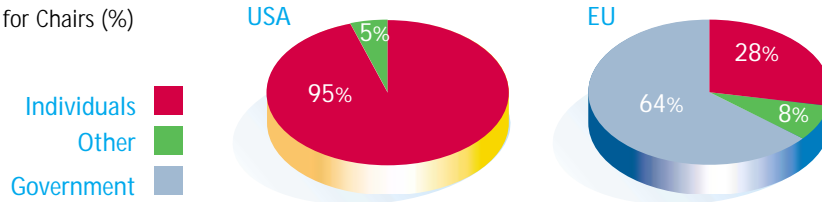
Europe's entrepreneurs face a 'skills deficit': Europe's education and training systems produce too few people with IT skills and too few potential managers with advanced training in entrepreneurship. Restrictive immigration laws make the situation worse by preventing Europe's entrepreneurs from attracting new workers from outside the EU.

Entrepreneurship Education and Funding

Average Endowments (Euro millions)



Sources of Funding for Chairs (%)

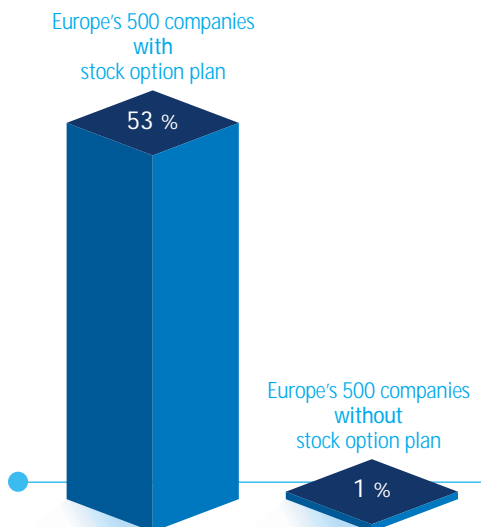


Source: European Foundation for Entrepreneurship Research

These problems are exacerbated by the way in which Europe's governments tax stock options, bonuses, and other types of risk-based pay. Research by the Boston Consulting Group shows that a large number (77%) of Europe's fastest growing companies use stock option programmes and that these companies have a much better performance in term of value creation. However entrepreneurs of high-growth companies (especially if they are international) face significant problems introducing stock option programmes as each EU country taxes stock options in a different way and in many countries, stock options, are taxed as income rather than capital and also subject to social security charges.

Stock Options Boost Value Creation

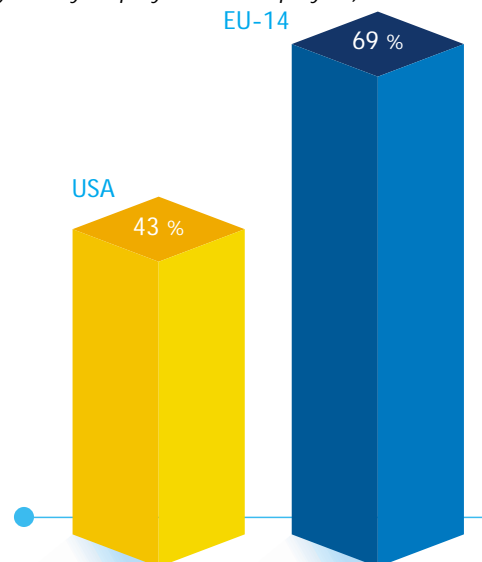
Total Shareholder Return



Source: "What Goliath can Learn from David - Hidden Role-Models in Value Creation and Entrepreneurship", Boston Consulting Group

Taxation of Stock Options

(payable by employees and employers)



Source: Arthur Andersen

All EU countries treat Stock Options differently

	Taxable moment	Taxable benefit	Social Security*		Marginal Income Tax Rate**
			Employer	Employee	
AUSTRIA	Exercise	Market price of shares less price paid	21.65%*	17.65%*	50.00%
BELGIUM	Grant	Percentage of value of underlying shares	-	-	55.00%**
DENMARK	Exercise	Market price of shares less price paid	-	9.00%	60.47%
FINLAND	Exercise	Market price of shares less price paid	6.50%	1.50%	59.50%
FRANCE	Exercise (for non-qualified option plans)	Market price of shares less price paid	26.00 - 45.00%	21.00%	54.00%
	Sale of shares (for non-qualified option plans)	Several scenarios possible			
GERMANY	Exercise	Market price of shares less price paid	20.50%*	20.50%*	51.00%**
GREECE	Exercise	Market price of shares less price paid	27.90%*	15.90%*	45.00%
IRELAND	Exercise (unless conditions for deferral are met)	Market price of shares less price paid	-	-	44.00%
ITALY	Exercise (unless spread is less than 10%)	Market price of shares less price paid	31.86%	9.19%	46.00%
LUXEMBURG	Exercise	Market price of shares less price paid	11.45%*	10.72%*	47.15%
NETHERLANDS	Grant (for unconditional options)	Percent of value of underlying shares	18.89%*	37.40%*	60.00%
	Vesting (for conditional options)	On the basis of special formula			
PORTUGAL	Exercise	Market price of shares less price paid	23.75%	11.00%	40.00%
SPAIN	Exercise	Market price of shares less price paid (30% reduction if options are held for 2 years or more)	30.80%*	6.40%*	48.00%
SWEDEN	Exercise	Market price of shares less price paid	32.92%	31.11%	56.00%
UK	In principle at exercise (for non-approved plans)	Market price of shares less price paid	12.20%*	10.00%*	40.00%
	In principle at sale of shares (for approved plans) (for approved plans)	Sales proceeds less market value at the moment of grant			

* In a number of countries, social security contributions are only due on remuneration up to a certain limit;

Source: Arthur Andersen

** Additional surcharges are due in certain countries.

GrowthPlus recommends that governments should:

- ENCOURAGE IMPROVEMENTS IN THE RANGE AND QUALITY OF SKILLS AVAILABLE TO ENTREPRENEURIAL COMPANIES BY:
 - PROVIDING ADDITIONAL FISCAL INCENTIVES FOR COMPANIES THAT MAKE INVESTMENTS IN THE DEVELOPMENT OF HUMAN CAPITAL.
 - ADAPTING IMMIGRATION LAWS TO ALLOW SKILLED NON-EU CITIZENS TO WORK IN EUROPEAN COUNTRIES.
 - ESTABLISHING ENTREPRENEURSHIP EDUCATION IN SCHOOLS AND UNIVERSITIES
 - INTRODUCING FISCAL INCENTIVES FOR PRIVATE OR CORPORATE ENDOWMENTS OF CHAIRS OF ENTREPRENEURSHIP THROUGHOUT EUROPE.
- DEVELOP A CONSISTENT EU FRAMEWORK FOR STOCK OPTION PROGRAMMES FOR EMPLOYEES OF HIGH GROWTH COMPANIES BY:
 - TAXING STOCK OPTIONS AS CAPITAL, WITH TAX PAYABLE ONLY ON GAINS REALISED WHEN ANY UNDERLYING SHARES ARE SOLD.
 - ENSURING THAT STOCK OPTIONS GRANTED TO EMPLOYEES MOVING WITHIN THE SAME COMPANY OR GROUP OF COMPANIES WITHIN EUROPE ARE TAXED ONLY ONCE.
- ENCOURAGE ENTREPRENEURS TO DEVELOP OTHER RISK SHARING FORMS OF REMUNERATION BY REDUCING TAXATION OF RISK-RELATED PAY.

The effective implementation of these recommendations will encourage GrowthPlus members to:

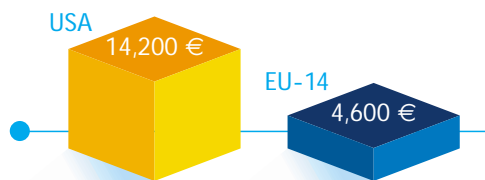
- ESTABLISH BETTER LINKS WITH SCHOOLS AND UNIVERSITIES.
- CREATE OPPORTUNITIES FOR STUDENTS TO EXPERIENCE THE 'REALITY' OF FAST GROWTH COMPANIES.
- SHARE WEALTH BY BROADENING STOCK OPTION PROGRAMMES AND ALLOWING SIGNIFICANT NUMBERS OF EMPLOYEES TO PARTICIPATE.

FUNDING

Capital of the right type and in sufficient quantity is critical if entrepreneurs are to invest in the physical, human, and intellectual resources needed to exploit new opportunities. For start-ups and early stage companies, risk capital from families, business angels and venture capitalists is of the greatest importance. More mature fast-growth companies rely on retained earnings as well as external capital.

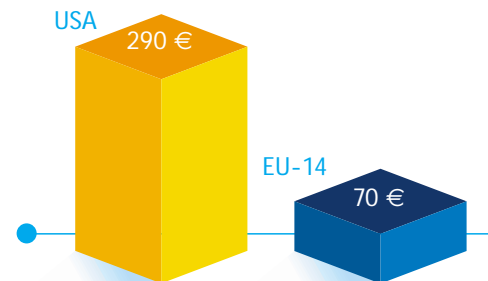
Europe's entrepreneurs face a 'funding deficit': Less capital is available from business angels and from formal venture capital funds to support new, risky ventures. Europe's entrepreneurs have access to a narrower range of financial instruments, such as high yield and asset-backed debt finance. European companies also retain less profit after tax than US companies.

Institutional Investment in Equities (per capita)



Source: OECD

Venture Capital (excl. MBO's, per capita)



Sources: EVCA, NVCA, and UNICE

The absence of a single, integrated capital market is one reason why Europe's entrepreneurs lack the right type and quantity of capital. A major cause of this is national regulation of Europe's financial institutions, many of which serve to restrict investment in small, fast-growth companies.

Low levels of retained earnings for European companies compound the inadequacies of Europe's external capital markets. The principle causes include high taxation of retained profits in some EU countries, high taxes on labour, inadequate labour and capital productivity, and uncompetitive utility costs. All erode the surplus available for reinvestment.

GrowthPlus recommends that governments should:

1. PROVIDE INCREASED FISCAL INCENTIVES FOR "BUSINESS ANGELS" INVESTING IN START-UPS AND FOR PRIVATE INDIVIDUALS INVESTING IN VENTURE CAPITAL FUNDS.
2. REMOVE RESTRICTIONS ON DOMESTIC FINANCIAL INSTITUTIONS THAT INHIBIT THEIR ABILITY TO INVEST IN PRIVATE EQUITY.
3. IMPROVE FISCAL SUPPORT FOR INVESTMENTS BY COMPANIES IN 'INTANGIBLES', ESPECIALLY THROUGH TECHNIQUES THAT IMPROVE SHORT-TERM CASH FLOW.
4. REDUCE TAXATION ON RETAINED EARNINGS FOR FAST-GROWTH AND JOB CREATING COMPANIES.

The effective implementation of these recommendations will encourage GrowthPlus members to:

1. INCREASE THE LEVEL OF THEIR INVESTMENTS IN THEIR OWN BUSINESSES.
2. INCREASE THEIR INVESTMENTS IN OTHER BUSINESSES.

BUSINESS ENVIRONMENT

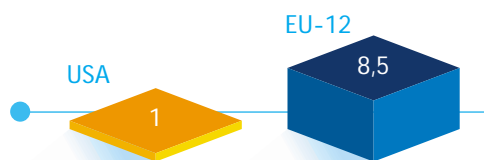
Many factors determine whether societies encourage entrepreneurship. One of the most important is the impact of fiscal policies on the rewards risk takers receive for creating successful businesses. The extent to which bankruptcy regulations stigmatise failure and administrative regulations increase the costs of running a business, is also important.

Measured on this basis, Europe has a 'business environment deficit'. In many countries, high levels of taxes on wealth and capital gains reduce incentives for entrepreneurs to create successful businesses and reinforce negative opinions about wealth creation. A further problem is the high level of regulatory costs linked to setting up and running a new business.

Bankruptcy regulations also contribute to the unsupportive environment for entrepreneurs in Europe. Slow discharge from bankruptcy and tough criminal penalties in many countries stigmatise failure and create unnecessary obstacles to people trying again.

From Bankruptcy to Start-up

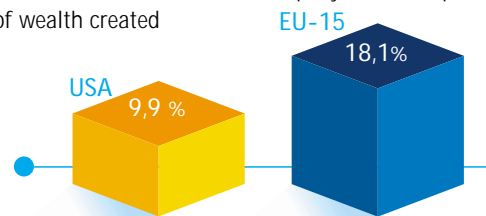
Length of time that creditors still have claims on a bankrupt's assets"



Source: UNICE, "Stimulating Creativity and Innovation in Europe"

Taxation on Business Disposal

Tax rate on sale of small 'model' company, based on percentage of wealth created



Source: UNICE, "Fostering Entrepreneurship in Europe"

Action is needed to promote the development of an entrepreneurial society in Europe. In the short-term, this can be facilitated by changes in the fiscal and regulatory framework.

GrowthPlus recommends that governments should:

1. SET CLEAR, TRANSPARENT TARGETS FOR THE REDUCTION OF THE ADMINISTRATIVE COMPLIANCE COSTS INCURRED BY COMPANIES. AS A PART OF THIS, THE INTERNET SHOULD BECOME THE PREFERRED WAY FOR BUSINESSES TO INTERACT WITH PUBLIC ADMINISTRATIONS.
2. REDUCE THE BURDEN OF TAXATION ON INCREASES IN WEALTH THAT HAVE BEEN EARNED BY TAKING RISKS AND BUILDING UP SUCCESSFUL BUSINESSES.
3. REFORM BANKRUPTCY LAW IN SUCH A WAY THAT FRAUD IS PUNISHED AND CREDITORS ARE PROTECTED, BUT WHICH ENSURES THAT INDIVIDUALS WHO SUFFER HONEST, ECONOMIC FAILURES ARE ALLOWED TO TRY AGAIN QUICKLY WITHOUT CRIMINAL PENALTIES.
4. REDUCE FINANCIAL COSTS AND LIABILITIES FOR BOARD MEMBERS OF BANKRUPT COMPANIES

The effective implementation of these recommendations will encourage GrowthPlus members to:

1. PARTICIPATE IN "BUSINESS TEST PANELS" (TO REVIEW REGULATORY IMPACTS)
2. PROVIDE OFFICIALS AND POLICY-MAKERS WITH OPPORTUNITIES TO EXPERIENCE THE 'INSIDE' OF FAST-GROWTH COMPANIES.
3. PARTICIPATE AS BOARD MEMBERS IN A LARGER NUMBER OF NEW COMPANIES

GROWTHPLUS WANTS TO THANK THE FOLLOWING INDIVIDUALS AND ORGANIZATIONS FOR THEIR SUPPORT IN DEVELOPING THIS WHITE PAPER: GROWTHPLUS MEMBERS & LEADERSHIP, BRUCE BALLANTINE & RICHARD MEADS OF BUSINESS DECISIONS LTD. AND ITS STRATEGIC PARTNERS: 3I GROUP, ARTHUR ANDERSEN, BMW AND THE BOSTON CONSULTING GROUP AND ITS PUBLIC SECTOR SUPPORTER, THE STATE OF BAVARIA.