

# EFB Position Paper: Fostering Long-Term Entrepreneurship



**Entrepreneurship: any attempt at new business or new venture creation, such as self-employment, a new business organisation, or the expansion of an existing business, by an individual, a team, or an established business (Reynolds et al 1999).**

When one talks about fostering entrepreneurship, who or what are we trying to target? For example, are governmental measures designed to foster entrepreneurship aimed at the graduate fresh out of university, the manager of an SME or micro business, or the potential successor of a Family Business? New entrepreneurs or existing SMEs have different needs. A new entrepreneur is likely going to be preoccupied by acquiring seed financing, whilst the SME might be focused on operating in emerging markets. **However, these different types of owners or companies follow the same chain of evolution, and ultimately, the survival or expansion of a business will come from entrepreneurial activity.**

The table shows the various barriers to entrepreneurship throughout the life cycle of a Family Business. A specific example, for the Family SME or Large Family Enterprise is Business Transfers, as it can become a major threat for these companies, because the majority of the wealth of the company is kept within, unlike listed companies who have dispersed share ownership. Therefore, when the company finally has to pay the subsequent gift or inheritance tax, they can become undercapitalised, stifling the next generation entrepreneurial spirit since he or she will not have the necessary investment capital to push the business forward. In this particular example, we see that **a major barrier to entrepreneurship is often caused by the legal and fiscal framework which can stifle Family Businesses.**

| Family Business Evolution    |                       |                                       |                       |
|------------------------------|-----------------------|---------------------------------------|-----------------------|
| Start up Entrepreneur        | Micro Family Business | Small or Medium Sized Family Business | Large Family Business |
| Barriers to Entrepreneurship |                       |                                       |                       |
| Education                    | Administrative Burden | Access to Equity                      | Access to Equity      |
| Administrative Burden        | Access to Successors  | Access to Markets                     | Innovation            |
| Seed Financing               | Access to Finance     | Business Transfer                     | Business Transfer     |
|                              | Education             |                                       |                       |

One of the main challenges facing the member states of the European Union (EU) is the need to enact policies that foster the strategic importance of entrepreneurship as a force for regional development and economic growth. The EU2020 strategy and the review of the Small Business Act rightly underline the need to foster entrepreneurship to boost growth and employment in Europe.

EFB believes that fostering entrepreneurship must of course be promoted for first time business ideas, but in addition, entrepreneurship must be promoted in existing businesses in particular SMEs who have high growth potential. However, if the European Union wishes to also promote 'smart, sustainable and inclusive growth' in Europe, more emphasis needs to be placed on the Family Business model since they are very often run sustainably and for the long-term. Entrepreneurship must be developed by concrete policy initiatives, but also initiatives that encourage sustainability and ownership for the long-term.

## Proposals

### 1. Taking over a family business, or being an Entrepreneur is a viable career:

It is evident that in Europe there is a social stigma attached to being an entrepreneur. This is reflected by the fact that in the United States, being an entrepreneur is seen as positive career choice, and entrepreneurial activity is much higher in comparison to Europe. **This negative perception of entrepreneurship throughout Europe must be changed.** The fear of the administrative procedure for setting up a business coupled with the fear of failure, or simply the perception of no security as an entrepreneur are some of the major factors which limit entrepreneurial activity in Europe.

- Greater awareness of entrepreneurship as being a viable career option and a benefit to society must be pushed at all levels.
- The administrative burden which comes with the setting up of a business must be simplified.
- Safety nets need to be put in place to assist those that do not succeed in entrepreneurial endeavours. Failed honest entrepreneurs need to be given second or even third chances to succeed as the initial failure is a learning experience as they are most likely to succeed the second time around.
- Simplification of bankruptcy procedures would help entrepreneurs start again and try to tap the full potential of business to create wealth and jobs.

## 2. Transfer of Business:

Family Businesses are the predominant form of enterprise in Europe; however, transferring a business to family members or outside actors is a complicated process. In some instances, potential successors within a Family Business do not find the prospect of taking over their parents business attractive. This puts thousands of businesses at risk each year, since the most suitable successor is not always willing, or available to take over. In many cases, however, parents do not take these developments into account and automatically assume that their children will become the successors of their family business.

- The European Commission should aim at a better implementation of the already existing recommendations with regards to the simplification of the tax and regulatory framework. In particular:
  - Reduced Inheritance and gift taxes
  - Level-playing field between debt and equity
  - Reinvestment tax reliefs
- Business transfers should receive at least the same extent of support as start-ups. According to 2002 project on business transfers from the Commission, existing companies conserve on average five jobs whereas a start-up generates on average two jobs.
- Eurostat should have accurate data on the Transfer of Business at the EU Level, and member states company registers should show it more clearly.
- Increase efforts in dissemination of best practices: Seminars and workshops and co-operation between employers' organizations and specialized family business networks should be encouraged.

## 3. Access to Finance:

Although the European Union and the Member States have rightly underlined access to finance for entrepreneurs as vital to fostering entrepreneurship, very often effective tools and measures already exist. A myriad of schemes have been developed in many of the Member States to help entrepreneurs find financing to set up their business ideas, however, very few entrepreneurs or business owners are aware of the tools which are available to them.

- The EU and the Member States must improve its communication with individual citizens and business owners of the policy measure and initiatives that can aid them in setting up or expanding their businesses.
- The EU and its Member States must promote a level playing field between debt and equity. Income from equity is often subject to more severe taxation than income from other types of capital, e.g. deposits or bonds. New or existing businesses are overly exposed because their balance sheets hold too much debt, leaving them extremely vulnerable to down turns. Stronger balance sheets and equity ratios are vital for business owners to run their businesses for the long term. Tax systems in Europe must become more innovative, and reward entrepreneurs and businesses who run their companies for the long term.

#### 4. Entrepreneurship Education:

Entrepreneurship education has been highlighted as being essential for fostering creativity and innovation. Entrepreneurship is integral to Family Businesses. 'Most start-ups begin as a Family Business and are faced with the question as to whether they want to continue the business beyond the founders. Therefore, promoting entrepreneurship is directly linked to promoting Family Businesses.'<sup>(1)</sup>

- Entrepreneurship education needs to be started as early as possible. Importantly, entrepreneurship education should aim to foster new family entrepreneurs, but also promote entrepreneurial behaviour (including innovation) in existing businesses.
- Family Business specific issues such as succession and family governance should be included in Entrepreneurship curricula to better prepare future entrepreneurs to successfully run their businesses should be.
- Special efforts need to be made to better the relationship between universities and business. Business owners and entrepreneurs need to be directly engaged in the learning process, since they bring practical expertise and hands-on know-how into the class room. Family Business owners or entrepreneurs can often bring something different - their corporate values, such as sustainability, trust, responsibility, and integrity.

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<sup>(1)</sup> Final Report of the Expert Group Overview of Family Business Relevant Issues: Research, Networks, Policy Measures and Existing Studies (November, 2009).

- European Family Businesses believes that coordinated action by the Commission is needed to utilise and promote the knowledge of thousands of family entrepreneurs to teach students, primarily in higher-education, of the benefits of starting a business and running it for the long-term (see EFB-GEEF Education Policy Paper).

In general, most European policy measures focus more on start-up entrepreneurs rather than on existing SMEs. SME and Entrepreneurship policies must be better integrated with the long-term approach of Family Businesses, to cater for the specific needs of entrepreneurs who want to run their companies sustainably and vfor the long-term.

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European Family Businesses is a federation of 11 national family businesses associations. Our aim is to make political decision makers aware of the contribution of family businesses to society at large and to promote policies that are conducive to long term entrepreneurship. Our members represent turnover in excess of one trillion Euro, 9% of European GDP.