

# EFB's Contribution to the EU Start-Up and Scale-Up Strategy - Call for Evidence

European Family Businesses (EFB) thanks the European Commission for the call for evidence on the EU start-up and scale-up strategy. Family businesses are vital for their long-term commitment to their local economies, but also because they are a perfect example of scale-ups. Over the course of generations, family businesses develop, adjust and adopt their growth strategy allowing them to scale-up.

As such, we will focus primarily on scaling-up rather than start-ups. It is clear that there are barriers to growth for companies within the single market. Fragmentation, administrative burden, lack of access to talent, the incomplete Capital Markets Union (CMU), the lack of coordination between member states are all elements that make it difficult for businesses to scale-up within the EU. Companies need predictability especially since there are too many unknowns when scaling-up a business.

*Question 1 - Do you agree that startups and/or scaleups face the hurdles identified in this document (access to finance, regulatory and bureaucratic burdens and fragmentation, access to markets, access to talent, and access to infrastructure, knowledge and services)?*

It is clear that there is increased regulatory burden faced by a company outside of SME category. Europe has a strong SME base. The European institutions have worked on providing proportionality to SMEs when thinking of legislation. This has proved a great opportunity for SMEs. **However, as we are focusing on European competitiveness and innovation, we need to take this approach and adopt it to companies that grow beyond the SME definition - namely, mid-caps.** The administrative burden faced by companies outside of the SME category had until recently been the same for mid-caps and large companies. Mid-caps had been treated as having the same ability to handle the complexity and costs of legislation as large enterprises. This has, in our opinion, created a business environment in Europe that encourages companies to stay within the SME category and not go for growth.

We are aware that the European Commission has already, in their SME Relief Package identified in the section on *growing the business* the challenges faced by companies that have outgrown the SME category and presented the need for a small mid-cap definition. While it is clear that establishing a small mid-cap definition will help alleviate the barriers for companies falling just outside the SME category by providing guidance, **EFB is of the opinion that we need an EU category for mid-caps with different size related definitions (e.g. small mid-caps, medium mid-caps and large mid-caps).**

Therefore, EFB proposes the following parameters for the mid-cap category's definitions:

- a **small mid-cap definition** put forth by the European Commission, which will cover companies with 250 - 500 employees, a turnover of 100 million euros or a balance sheet total of 90 million euros.
- a **medium mid-cap definition** which would comprise of companies with 500 - 1500 employees, a 300 million euros turnover or a balance sheet total of 270 million euros.
- a **large midcap definition** could comprise of companies with 1500 - 3000 employees, 600 million euros turn over or a balance sheet total of 810 million euros.

We are of the opinion that if we want companies to grow and scale-up in Europe then we need to ensure that they are not met with overcomplexity as soon as they become mid-caps.

Moreover, the fragmentation and 'gold-plating' across the 27 member states are clear **barriers to companies' ability to scale-up and operate in a cross-border setting**. The problem at hand is that the single market does not function in the cohesive manner it needs to be effective. It is of course important for member states to have their own national systems, but where possible businesses need streamlined implementation of legislation. It is for this reason, that **we welcome the idea of a voluntary 28<sup>th</sup> legal regime**. This would likely help to facilitate commercialisation across the single market and reduce administrative burden and costs.

**Attracting talent, hiring workers across the EU, developing skills and retaining talent are all barriers to companies seeking to scale-up.** Our members have noted time and time again that the lack of interoperability of social security systems and the length of time taken in recognising qualifications makes it difficult to attract and retain the talent required for the twin digital and sustainability transition.

### *Question 2 - Are there any additional hurdles faced by startups and/or scaleups?*

EFB would like to argue that business transfers are an additional hurdle that have perhaps not been considered.

For family businesses, intra-family business transfers are vital for a business's continuity. Of course, it is not only family businesses that carry out a business transfer. Companies can be transferred to a third party or to employees. However, we would like to argue that while the European Commission does not have competence in the area of taxation, **the Commission can and should encourage member states to think**

about best practices for business transfers in all forms (intra-family business transfers included).

Business continuity is directly linked to business transfers and how simple the process is. To encourage entrepreneurs to scale-up in the single market, it is vital that they get the support they need to plan and transfer the business. We recommend on-going support tools for entrepreneurs. Additionally, they need an environment conducive to business growth. For the latter we recommend that a new **Commission Recommendation on the transfer of SMEs** is presented as soon as possible.

*Question 3 - What actions do you think the EU and/or its Member States should take to address these hurdles?*

Research, development and innovation push companies to grow and develop. Whether it is in health care, agricultural technology, renewable energy or defence sector, innovation is more often than not driven by start-ups and scale-ups. **However, they often face slow permitting speeds. Equally important is the collaboration of academics to innovation.** It is important to protect intellectual property while speeding up permitting to get innovations into the market. **These elements are key to the EU's competitiveness.**

The innovation in Europe is also limited due to access to finance. We are pleased that the grants in the European Innovation Council Accelerator, are available to SMEs and small mid-caps in an effort to ensure they can fund their innovations and scale-up. However, the extent to which this fund is enough to meet the innovative demands of SMEs and small mid-cap companies in Europe remains to be seen especially given the number of applications submitted to access these funds. As pointed out by Mario Draghi in his report, *Europe's innovation is blocked as Europe fails to translate innovation into commercialisation, and innovative companies that want to scale up in Europe are hindered at every stage by inconsistent and restrictive regulations.* In addition, to help companies access finance, the Commission needs to review the requirements that banks place on loans which substantially changed due to the corporate reporting requirements presented in the last mandate.

Moreover, the Debt-Equity Bias Reduction Allowance proposal (DEBRA) also deserves a mention. While it has been suspended at the Council level, the DEBRA proposal as proposed by the Commission in 2022 was supposed to support businesses by treating equity and debt in the same manner. The DEBRA proposal is far too important to be placed on a shelf. EFB has been calling for the equal treatment of debt and equity for over a decade and we will continue to call for it as we see the tremendous potential it has to boost businesses competitiveness. **Although in its current form the DEBRA proposal will be less helpful to businesses, we would like to encourage a review of the**

proposal as the geopolitical situation has shifted greatly since 2022 when the proposal reached the Council and was subsequently suspended.

Overall, we look forward to the proposals of the EU start-up and scale-up strategy and hope the Commission takes into consideration the abovementioned points. Taking into account business transfers, developing an EU mid-cap category with different size definitions, reviewing the DEBRA proposal, assessing access to financing for innovation and increasing permitting to get innovations into the market are vital to the EU's competitiveness. EFB looks forward to working on these topics and thanks the Commission for the opportunity to contribute to this call for evidence.

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***European Family Businesses (EFB)** is a federation of 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, 10% of European GDP.*