

# Reinventing our economy from within

How Europe's start-up ecosystems can learn from each other to ignite and scale up entrepreneurship

by Massimo Giordano, Karel Dörner, Max Flötotto, and Tobias Henz

# Executive summary

Europe<sup>1</sup> is one of the world's largest regional economies and has a long history of stable growth that has led to widespread prosperity. However, more recently, Europe has been falling further behind the United States. Not only has Europe experienced slower economic growth but also it lacks the key technologies of the future and foundational structures that support innovation, which is a trend that is expected to continue in the short term. This slowing growth may be a risk to Europe's continued prosperity and international sovereignty. However, Europe's national start-up ecosystems hold significant potential to reverse this economic trajectory; our analyses show the potential for start-ups to add 3.6 million to 8.1 million additional jobs to the economy and contribute \$1.2 trillion to \$3.3 trillion in additional market capitalization.

To achieve this potential, the individual start-up ecosystems will need to improve performance in two key areas: early-stage entrepreneurial activity, which is defined as the number of adults starting or running a new business, and the successful scale-up of existing start-ups. While there are already pockets of success – in individual countries, select KPIs of a successful start-up ecosystem show promising levels compared to the United States and the rest of Europe – to compete globally, both individual countries and the pan-European start-up ecosystem will need to become successful across all defining KPIs of a start-up ecosystem and orchestrate efforts to do so. Based on an in-depth analysis of the status quo of national start-up ecosystems, we defined best practices across all KPIs of the start-up ecosystems that European countries have implemented individually in the past – and can now learn from collectively. Additionally, an orchestrated European strategy can support the success of European start-ups in competing internationally.

The analysis in this article builds on quantitative benchmarks from publicly available data and qualitative insights derived through expert interviews with members of the European start-up ecosystem. All figures are based on the status quo and do not depict any forecast of future changes.

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<sup>1</sup> EU-27, United Kingdom, and Switzerland.

# Fueled by a lack of innovation, Europe's economic output and growth are falling behind the United States

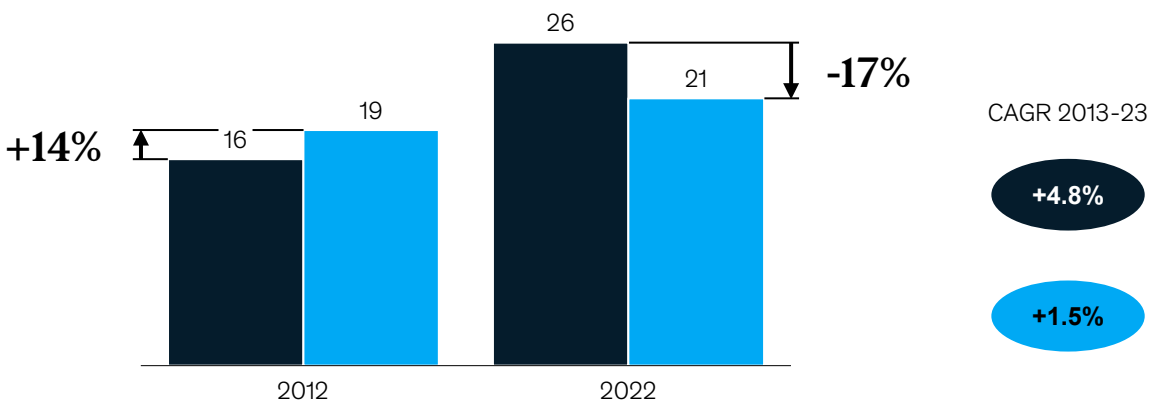
The combined economic output of individual European countries makes the region one of the leading economies in the world. Together, the EU-27, Switzerland, the United Kingdom, and Norway generated approximately \$21.1 trillion in GDP in 2022 compared to \$25.5 trillion from the United States.<sup>2</sup> This corresponds to a 20 percent gap between the region and the United States – a reversal compared to 2012. This economic development is even more pronounced in terms of GDP per capita. Already today, most US states have a higher GDP per capita than European countries<sup>3</sup> with the US average exceeding Europe by more than 30% (\$64,000 in the US vs. \$48,700 in Europe)<sup>4</sup>. This gap is expected to widen further, as the United States is outgrowing Europe by 3.3 percentage points annually (see Exhibit 1).

Exhibit 1

## The economic gap between Europe and the United States has grown in recent years

GDP in current prices, \$ tn

■ US ■ Europe (incl. Norway, UK, and Switzerland)



Source: McKinsey

One key contributor to this widening economic gap between Europe and the United States is a significant difference in innovation between the two regions: While the United States invests significantly in new innovations that will create economic value in the future, Europe's investment levels are significantly lower – as observed in R&D spending (see Exhibit 2).

This widening innovation gap is especially pronounced for ten critical technologies of the future, including next-level automation, distributed infrastructure, and the Bio Revolution (see Exhibit 3).<sup>5</sup>

<sup>2</sup> Source: International Monetary Fund (IMF); World Bank; U.S. Bureau of the Census; U.S. Bureau of Economic Analysis.

<sup>3</sup> Incl. Norway

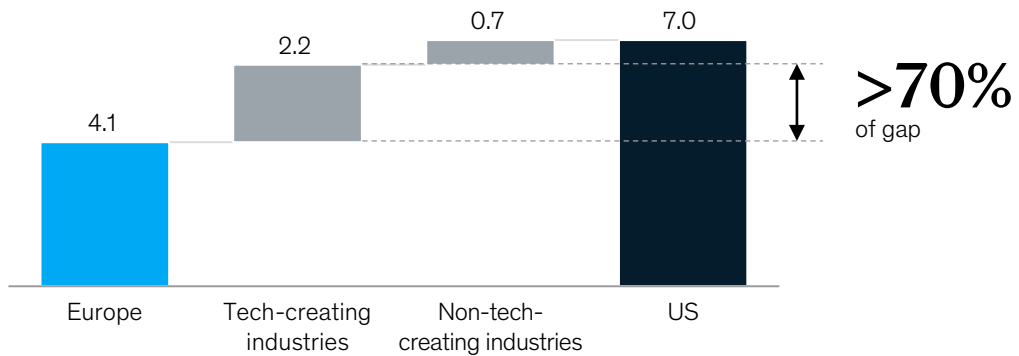
<sup>4</sup> Source: International Monetary Fund (IMF); World Bank; U.S. Bureau of the Census; U.S. Bureau of Economic Analysis.

<sup>5</sup> Source: "The top trends in tech," McKinsey Digital, 2021; McKinsey Global Institute.

Exhibit 2

## Compared to the United States, Europe is lagging behind in R&D activity

R&D spending/revenue based on top 2,500 R&D spenders in 2019, %



Source: McKinsey Corporate Performance Analytics Tool; EU Industrial R&D Investment Scoreboard; Eurostat 2020; McKinsey

Exhibit 3

## Europe lags behind on eight out of ten critical technologies of the future

Europe's global relative position as indicated by multiple

■ Europe lagging ■ On par ■ Europe leading

Transversal technologies		Innovation
<b>Next-level automation</b>	Industrial/collaborative/professional robots; additive manufacturing	● 0.6
<b>Future of connectivity</b>	5G; Internet of Things	● 0.7
<b>Distributed infrastructure</b>	Cloud; edge computing	● 0.2
<b>Next-generation computing</b>	Quantum computing; neuromorphic software	● 0.5
<b>Applied AI</b>	Robotic process automation; optimized decision making	● 0.5
<b>Future of programming</b>	Software 2.0; no-code and low-code programming	● 0.3
<b>Trust architecture</b>	Block chain; zero-trust security/cybersecurity	● 0.3
<b>Bio Revolution</b>	Biomolecules; biosystems	● 0.8
<b>Next-generation materials</b>	Nanomaterials; composite materials	● 0.7
<b>Future of cleantech</b>	Solar power; wind energy	● 1.3
		<b>Average 0.6</b>

Values >1 indicate Europe is leading and values <1 indicating Europe is lagging; e.g., if Europe issues 200,000 patents per year related to automation vs. 400,000 a year in the US, the multiple is 0.5

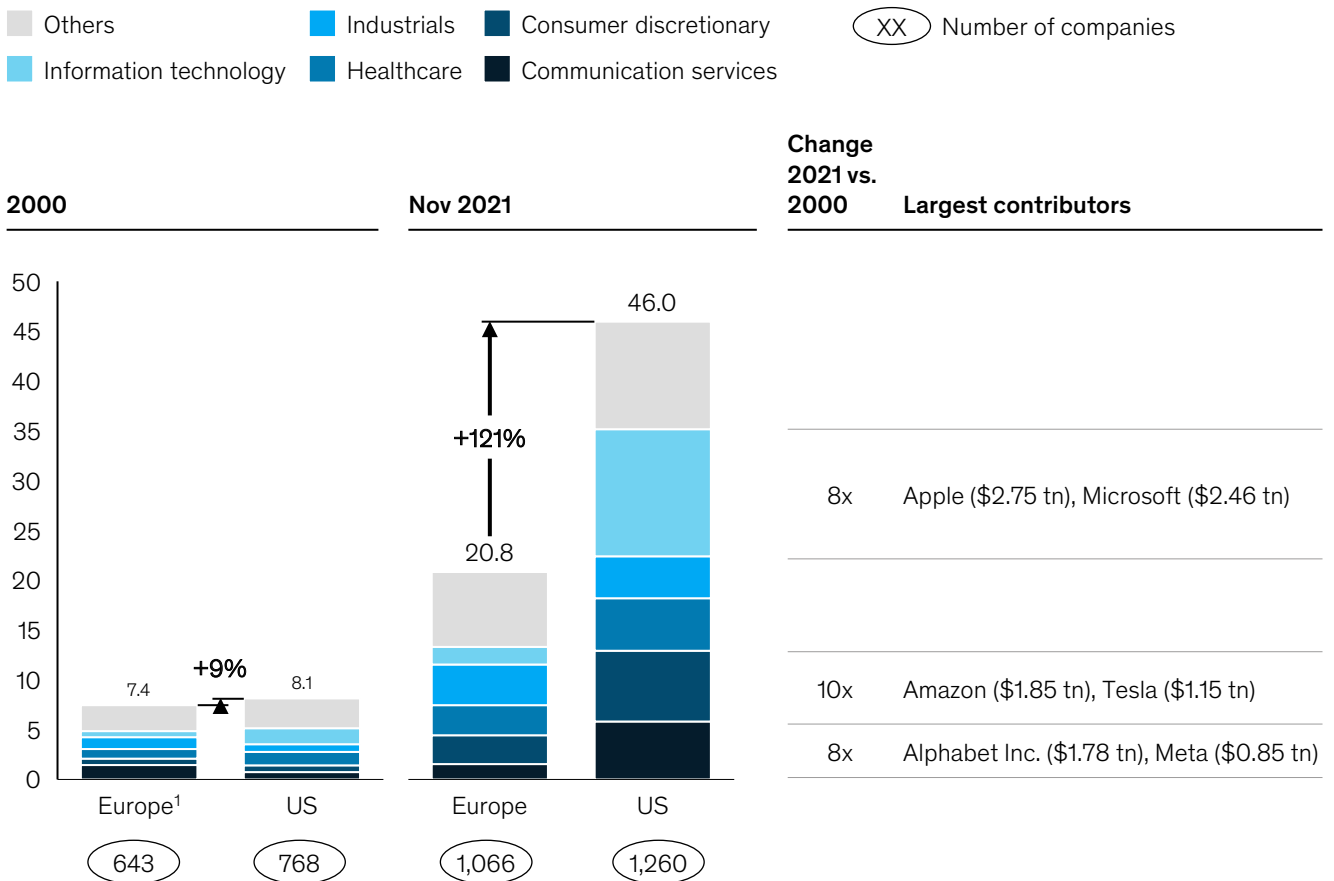
Average number of the ratios is based on the number of publications, number of patents, and venture capital funding (\$ bn)

Source: McKinsey

However, innovation – especially in the critical areas of the future – is key to driving an economy’s prosperity, especially through the creation of start-ups and scale-ups that can transform into the industry leaders of tomorrow, disrupting established industries. A stark example of this market evolution is the historic development of US-based technology champions that grew massively between 2000 and 2021, thus adding to the United States’ leading global position (see Exhibit 4). As a result of their growth and innovation potential, start-ups also carry significant potential to add to a country’s economy by adding jobs and market capitalization. Fittingly, during the last 20 years, the United States has produced numerous economic leaders, including the likes of Apple and Microsoft, which grew from start-ups into international leaders in their sector, thus outpacing Europe, especially in the information technology area.

Exhibit 4

### Former start-ups drive innovation and are the basis for the United States’ global economic leadership position



1. EU-27, Switzerland, UK, and Norway

Source: CPAT; McKinsey

**“Our start-ups today will be our corporates of tomorrow, ultimately providing a multiple of the initial value and jobs.”**

—Ines Moreno-Alonso, Allied for Start-ups

# At a country level, Europe already has the tools to become a true start-up powerhouse, as it holds significant economic potential

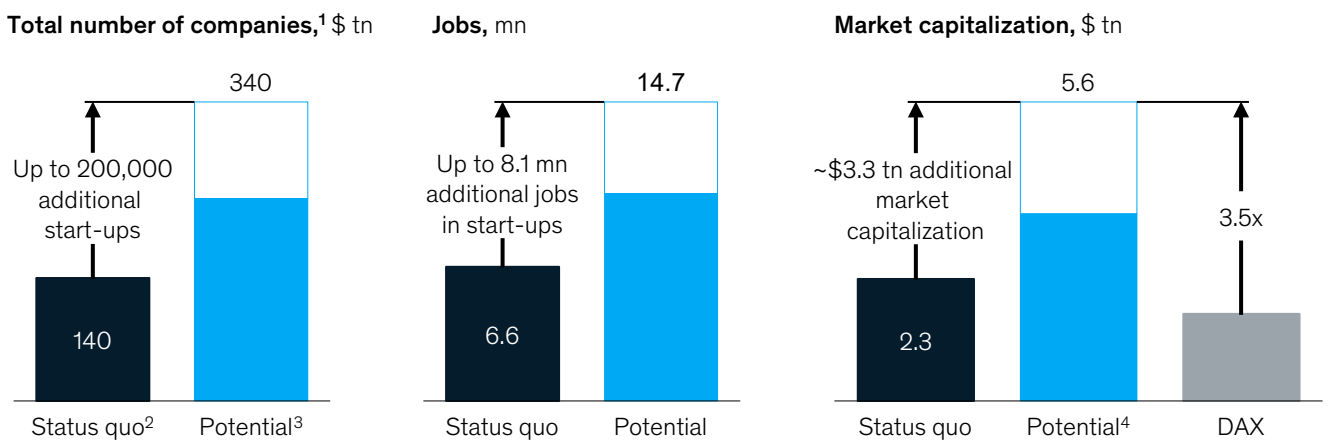
Based on an in-depth analysis of the European start-up ecosystem, we see significant economic potential in uplifting the individual start-up ecosystems, thus contributing to Europe's economic resilience and prosperity.

If European countries were to increase the number of start-ups founded and successfully scaled up by learning from existing best practices, we expect national start-up ecosystems to be able to catch up with their leading peers. This would result in the addition of up to 200,000 additional start-ups as well as the creation of up to 8.1 million additional jobs across the region. Additionally, improving the performance of European start-ups by fostering their success could create significant wealth and more than double the current market capitalization of start-ups, taking the combined value from \$2.3 trillion up to \$5.6 trillion. This would result in a total market capitalization of up to 3.5 times the current value of Germany's DAX (see Exhibit 5).

Exhibit 5

## Significant economic potential exists in Europe's start-up ecosystem relative to its status quo

■ Lower boundary □ Upper boundary



1. Private, for-profit companies started between 2000 and 2022 that are still in business (incl. successful IPOs and M&As); this incl. start-ups, scale-ups, and stable companies
2. As of 2022
3. European countries were benchmarked against each other; the lower boundary equals the potential if each country was as strong as the average of the top 3 countries in its respective third, while the upper boundary equals the potential if each country was as good as the average of the top third
4. The additional potential accounts for the assumption that the top third could be as good as the performance of the US if Europe would pursue a more aligned approach; Malta was excluded, as it represents a strong outlier (market capital of 146% of GDP)

Source: Dealroom; IMF; McKinsey

The key to unlocking this potential will be to reduce disparities between individual countries by applying a collection of best practices exhibited individually in selected countries. Together these best practices will positively influence all levels of a start-up ecosystem: 1) the generated output, in terms of economic value created; 2) the throughput, in terms of quantity and scaling ability of start-ups; and 3) the input, in terms of the core foundations that enable entrepreneurship and company scaling.

Today, countries differ widely in their performance across these levels, with no clear leader performing high on all elements. However, we see countries leading in selected KPIs that are spurred on by the implementation of best practices.

## Output: Economic value created

Across the 29 countries covered in our analysis, we see a few leaders emerging in terms of economic output overall, such as Estonia and Luxembourg. However, no one country so far has managed to achieve high levels across all areas of value creation, meaning the number of companies, jobs in start-ups and scale-ups, and total market capitalization. While Estonia has a high number of total companies and market capitalization, only a small fraction of its total workforce is actually employed by these companies. Luxembourg, on the other hand, has the highest share of employees working in numerous start-ups and scale-ups, while the market capitalization of these is significantly below other countries. Similar to the higher performing countries, there is also divergence across the bottom part of the benchmark – for example, Romanian start-ups, while few in number, have managed to employ 1.4 percent of the workforce, which is a relatively high level across the board, with the highest rank only at 12.4 percent for Luxembourg (see Exhibit 6).

Exhibit 6

### European start-up ecosystems differ significantly in their ability to contribute value to their national economies

Countries with GDP >\$100 bn    Countries with GDP <\$100 bn    ■ Top third    ■ Middle third    ■ Bottom third

Country	Economic value		
	Total number of companies, <sup>1</sup> 2022, per capita, mn	Jobs, <sup>2</sup> 2022, share of workforce	Market capitalization, 2022, share of GDP
Austria	249	1.3%	4%
Belgium	313	2.0%	9%
Bulgaria	194	1.0%	1%
Croatia	94	0.9%	6%
Cyprus	503	2.6%	15%
Czech Republic	119	1.0%	6%
Denmark	596	2.9%	10%
Estonia	1,047	3.7%	40%
Finland	563	2.9%	20%
France	281	2.9%	9%
Germany	198	2.6%	8%
Greece	72	0.5%	3%
Hungary	119	0.4%	1%
Ireland	725	5.2%	15%
Italy	137	1.3%	2%
Latvia	251	0.7%	2%
Lithuania	316	1.6%	13%
Luxembourg	869	12.4%	14%
Malta	465	6.1%	146%
Netherlands	523	3.4%	17%
Poland	82	0.5%	5%
Portugal	185	0.6%	2%
Romania	66	1.4%	1%
Slovakia	63	0.2%	1%
Slovenia	217	0.7%	1%
Spain	219	1.4%	6%
Sweden	470	3.0%	26%
Switzerland	544	8.1%	18%
UK	501	5.5%	24%

1. Private, for-profit companies started between 2000 and 2022 that are still in business (incl. successful IPOs and M&As); this incl. start-ups, scale-ups, and stable companies.  
2. Jobs in start-ups, scale-ups, and stable companies; indirect jobs through increased business activities are not quantified.

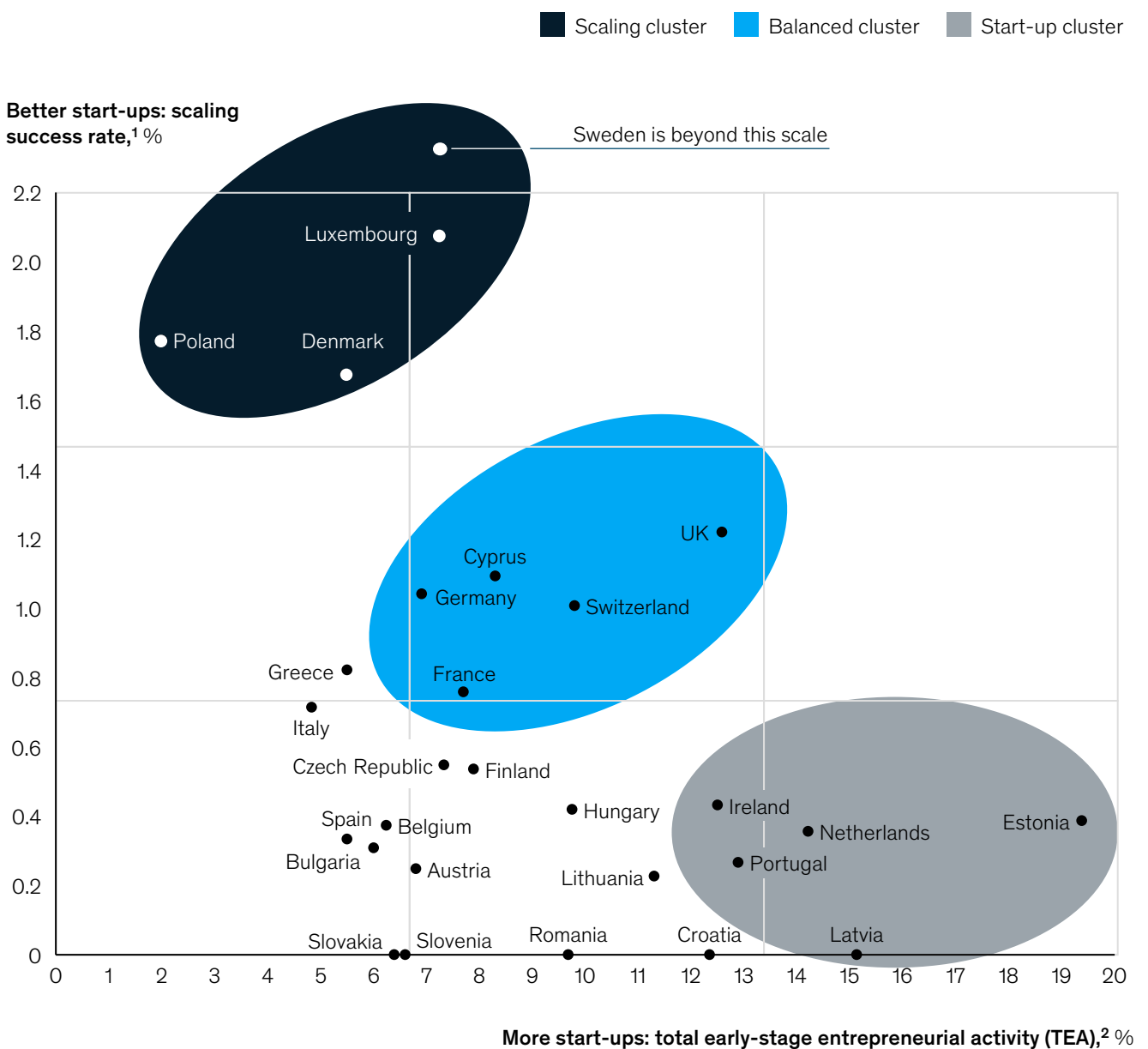
Source: Dealroom; IMF; Global Entrepreneurship Monitor 2022; McKinsey

## Throughput: Quantity and scaling ability of start-ups

To raise the economic output of individual start-up ecosystems, an increase in the quantity and ability to scale start-ups is needed. Again, we see stark differences across European countries in their performance in both categories (see Exhibit 7). While Estonia shows a high number of active entrepreneurs<sup>6</sup> fueling the high number of start-ups founded, adults in Europe generally are less inclined to found their own disruptive companies. Beyond the lower number of entrepreneurs, the high fragmentation of the European market appears to constrain the ability of start-ups to scale up.<sup>7</sup> Except for Sweden, Luxembourg, Poland, Denmark, and the United Kingdom, most countries have a low share of start-ups that were able to scale beyond Series D or an IPO, as seen in Exhibit 7.

Exhibit 7

### European countries differ in their ability to enable the foundation and scale-up of start-ups



1. Percentage of companies founded between 2010 and 2015 that have moved from below Series D to Series D+ or IPO

2. Percentage of adults (aged 18-64) who are starting or running a new business, 2021 ; if 2021 not available, 2022 data is used; no TEA score for Malta available

<sup>6</sup> The number of adults who are starting or running a new business as of 2021.

<sup>7</sup> The number of companies founded between 2010 and 2015 that have moved from below Series D to Series D+ or IPO.



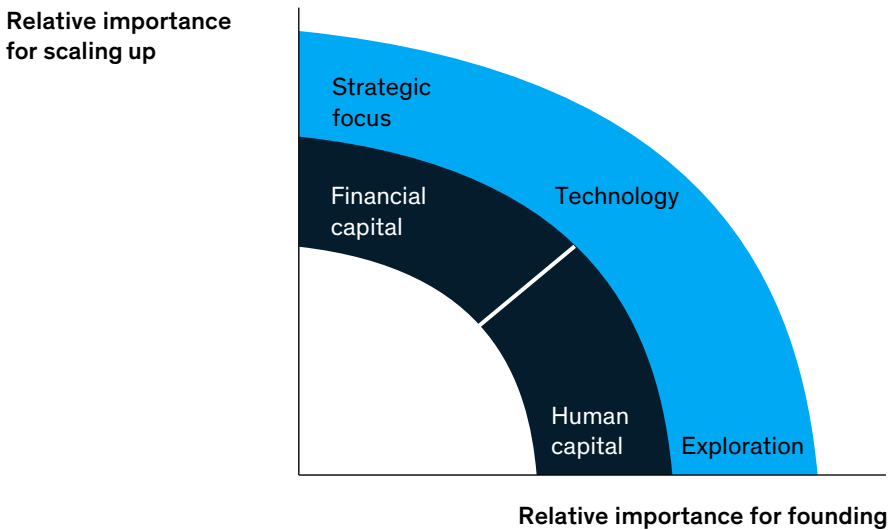
On an aggregated level, we see three clusters emerging across the region: the scaling cluster, the balanced cluster, and the start-up cluster. While countries in the scaling cluster show relatively low total early-stage entrepreneurial activity, they succeed at scaling up start-ups and tend to have strong sectors, such as gaming in Poland. Countries in the entrepreneurial cluster, on the contrary, show a relatively low scaling success rate but strong entrepreneurial activity and tend to exhibit founder- and start-up-friendly regulations. In the balanced cluster, countries don't outperform on either level but exhibit a fairer balance than the other two clusters. Countries in this cluster tend to be larger in terms of population and economic output.

### Input: Fundamentals of successful start-up ecosystems

To understand in greater detail which best practices can be transferred within Europe that will fuel the throughput of a start-up ecosystem, we defined key fundamentals – human capital, financial capital, and technology – that fuel the ability to found and scale up start-ups, and each builds on an array of individual success factors. Implementing these success factors can contribute to higher throughput in terms of more start-ups being founded and successfully scaled up, ultimately resulting in an increased economic contribution of the ecosystem to the respective market. The impact of these categories on the foundation and scale-up of start-ups can be seen in Exhibit 8.

Exhibit 8

### Three fundamentals build the basis for a successful start-up ecosystem



Source: McKinsey

**“To drive growth, you have to fuel the company funnel in its early stages.”**

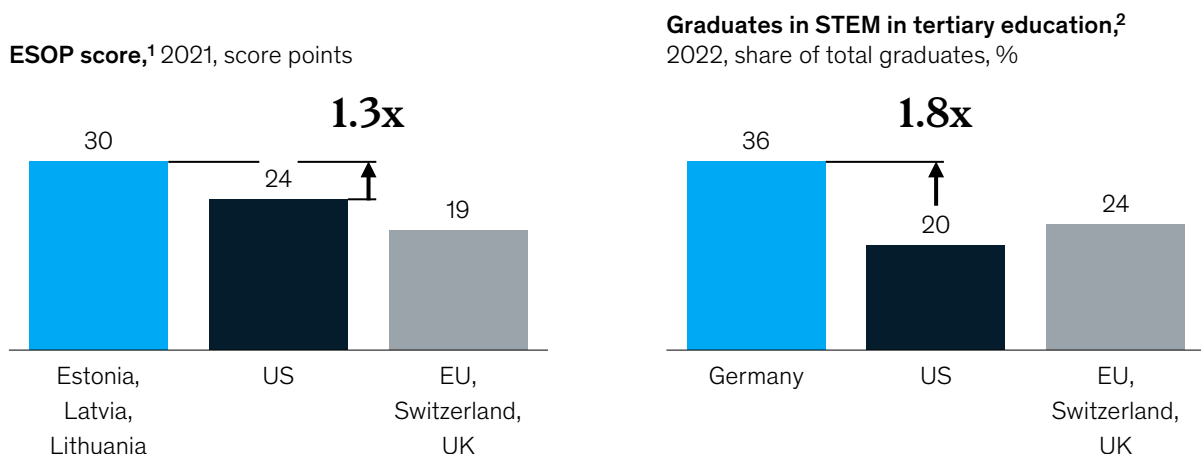
—Constantijn van Oranje-Nassau, Techleap.nl

To assess the attractiveness of a country in terms of human capital we examined two factors: 1) attractiveness to human capital, measured by employee stock ownership plan (ESOP) scores, which include, among other factors, employee taxation schemes, and 2) the number of graduates in STEM in tertiary education as a share of total graduates. Across countries, we see significant variation, with a particularly strong performance in the Baltics (see Exhibit 9). On the other hand, Germany leads in terms of STEM graduates, showing the high potential of new employees that flood the market annually, especially for critical innovations.

Exhibit 9

### European pockets of success: Individual countries succeed at fostering human capital

■ Top benchmark ■ US ■ European peers



1. Based on 6 evaluation criteria for share options and taxation, with possible values ranging from 5 (worst performance) to 30 (best performance); available only for selected countries  
 2. Latest data available (either 2020 or 2021 respectively).

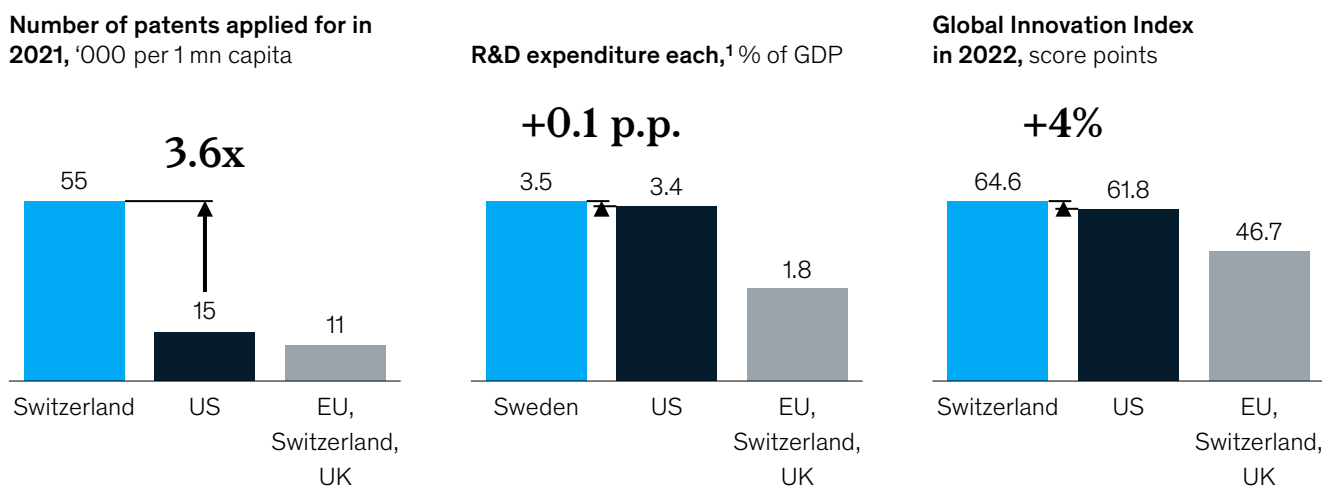
Source: Dealroom; IMF; Index Ventures; UNESCO; WIPO; UNECE; McKinsey

To assess the technological backbone of a country’s start-up ecosystem, we evaluated three measures that represent the ability of a nation to explore and excel in new fields of research and technology application (see Exhibit 10). We see Switzerland outperforming the European average in innovation and patent creation, resulting in a strong starting position for transforming innovations into potential ventures. In Sweden and Belgium, companies pour significant capital into R&D, hinting at significant investment into the exploration and development of innovations.

Exhibit 10

### European pockets of success: Individual countries succeed at fostering human capital

■ Top benchmark ■ US ■ European peers



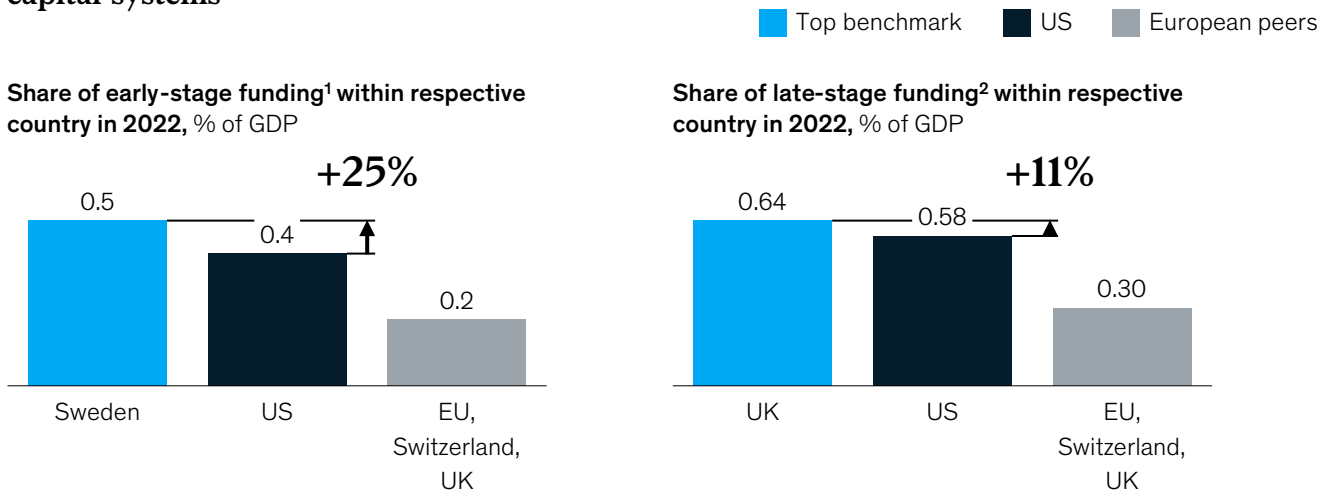
1. Latest data available 2019-21  
 2. Based on 7 evaluation criteria: institutions, human capital and research, infrastructure, market sophistication, business sophistication, knowledge and technology outputs, and creative outputs; possible values range from 0 (worst performance) to 100 (best performance)

Source: WIPO; IMF; UNECE; Global Innovation Index (WIPO) 2022; McKinsey

Finally, we examined the financial capital available to start-ups (early-stage funding) and scale-ups (late-stage funding) within each country (see Exhibit 11). While in total terms, the United Kingdom, France, and Germany lead the region, their shares of invested capital as a share of GDP – especially France and Germany – are lower than the European average.

Exhibit 11

## European pockets of success: Sweden and the United Kingdom have thriving financial capital systems



Note: Estonia has an even higher share but excluded due to outliers

Note: Estonia has an even higher share but excluded due to outliers

1. Angel, (pre-)seed, and Series A

2. Series B+

Source: Dealroom; IMF; Index Ventures; UNESCO; WIPO; UNECE; McKinsey

# From attracting talent and companies to opening up funding resources – European countries have started to redefine their national start-up ecosystems

Drilling down into the pockets of success and national start-up ecosystems in Europe, we observed different strategies to foster human capital, technology, and financial capital with the aim of creating a thriving start-up economy. These strategies build on different best practices, ranging from unbureaucratic processes to financial incentives and political commitment. Estonia, Switzerland, France, and Sweden are among the countries exhibiting such methods.

While Estonia is particularly strong in enabling the formation of new ventures through simplified processes and attracting human capital, Sweden is particularly strong in scaling up new ventures by attracting and providing financial capital. Switzerland has managed to build a hub for disruptive technology by leveraging its research ecosystem and financial benefits.

## EAISING THE INITIAL BURDEN: CASE STUDY OF ESTONIA

There are many ways that governments can facilitate the success of a start-up ecosystem. One way is to simplify the administrative process of launching and staffing a start-up while at the same time making it less costly to a start-up's bottom line to do so. Estonia has done just that.

In 2014, the Estonian government established Start-up Estonia, an initiative to provide substantial financial incentives to promote entrepreneurship. Among these incentives is a 0 percent corporate income tax on reinvesting and retaining profits within entities. In 2017, Estonia launched the Start-up Visa to attract non-EU talent. Additionally, since 2019, Estonia's Digital Nomad Visa allows digital nomads to live and work in Estonia for up to one year.

**“Communication doesn't follow actions, actions follow communication.”**

—Zoé Fabian, growth investor

Today, in Estonia, it takes less than 30 minutes to set up a company in the digital e-Business Register platform and only two to three business days for the official registration, which utilizes notary services enabled by unbureaucratic and highly digitized processes.

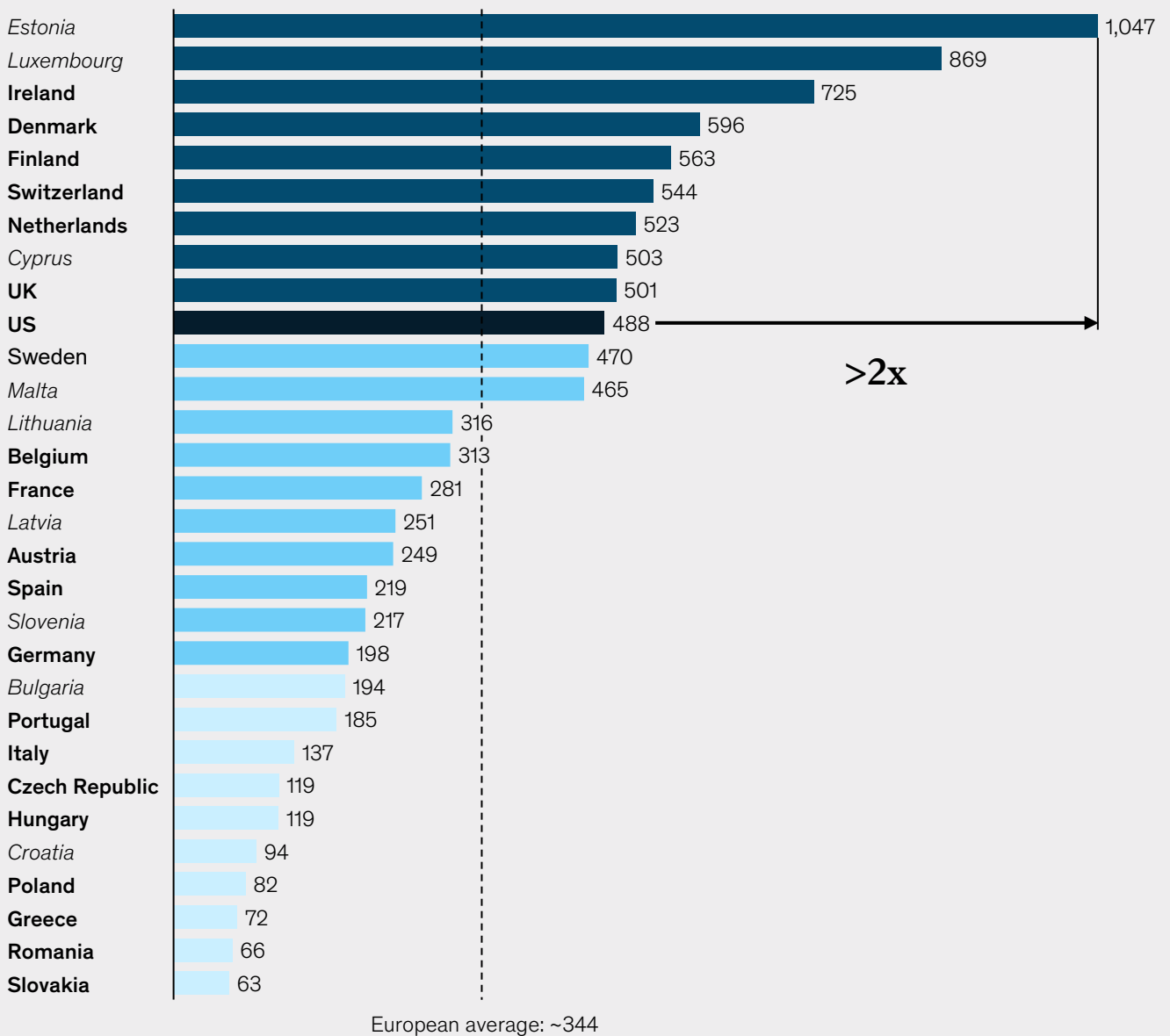
These measures have led to a robust, interconnected community of local champions and significantly higher early-stage entrepreneurial activity in Estonia compared to the rest of Europe (see Exhibit 12).

Exhibit 12

### Estonia offers a favorable environment for setting up start-ups

**Countries with GDP >\$100 bn**    ■ Top third   ■ Middle third   ■ Bottom third   ■ US  
*Countries with GDP <\$100 bn*

**Total number of start-ups,<sup>1</sup> scale-ups,<sup>2</sup> and stable companies<sup>3</sup> in 2022, per 1 mn capita**



1. Private, for-profit companies started between 2000 and 2022 that have never received Series B+ funding are still in business, and have not done an IPO  
 2. Companies that have raised Series B+ at any point in time and have not done an IPO  
 3. Companies that have done an IPO, merged, or been acquired

Source: Dealroom; IMF; McKinsey

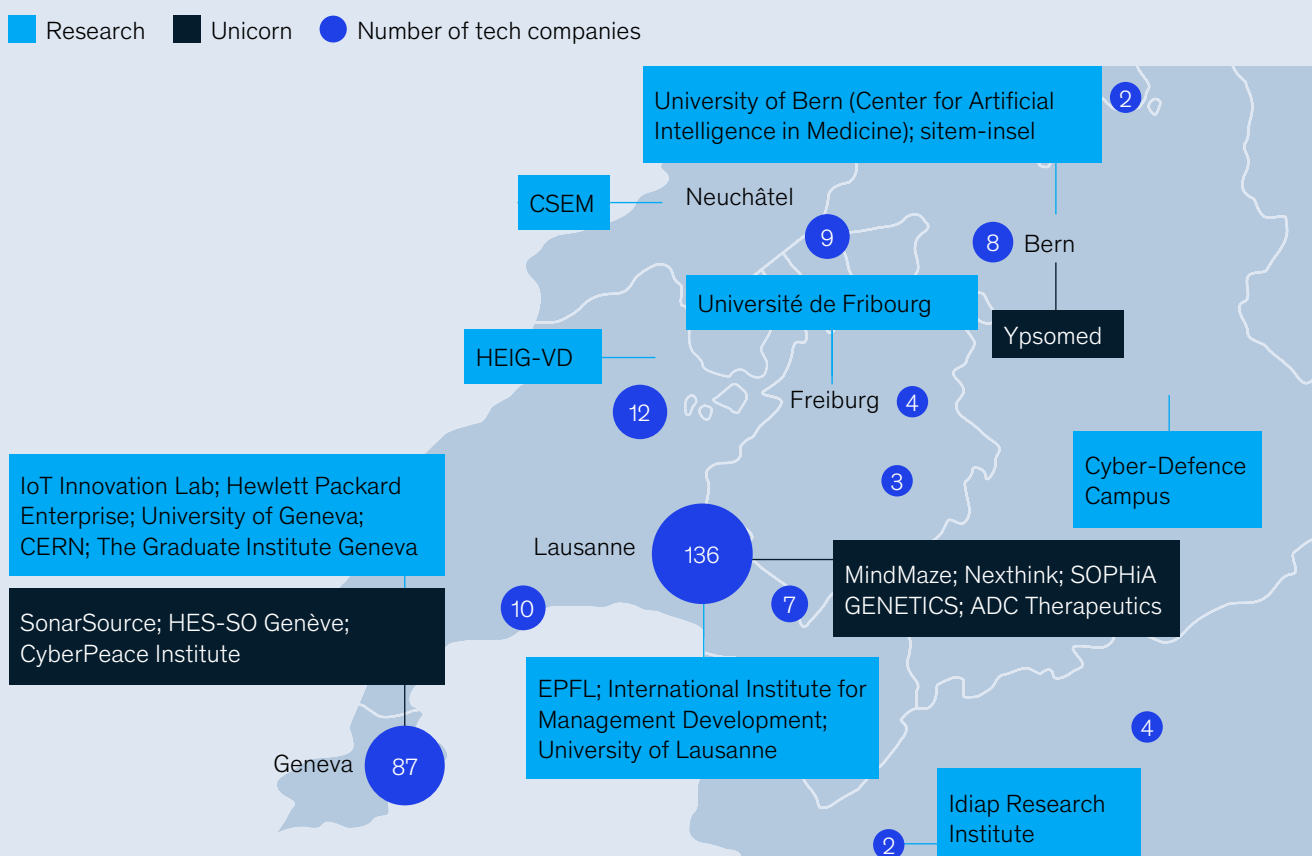
## RESEARCH, REGULATION, AND RECRUITMENT: CASE STUDY OF SWITZERLAND

In 2021, Switzerland had more than five times the number of patent applications per capita than the European average.<sup>8</sup> As a result, in 2022, Switzerland registered three newly funded AI start-ups per million capita.<sup>9</sup> Within Switzerland, a dense start-up region has emerged near Vaud and Geneva. Known as “Trust Valley,” this hub of entrepreneurship is home to 313 tech companies, of which 148 are AI companies (see Exhibit 13).

Exhibit 13

### The Swiss Trust Valley has amassed a number of tech companies

Not exhaustive



Source: Switzerland Global Enterprise; Trust Valley; Dealroom; McKinsey

Switzerland's ability to build what has become an international AI hub focused on digital trust – is driven by several factors. To start – recognizing the knowledge upon which problems are solved and successful start-ups are built – the country is a research machine, publishing twice as much AI research per capita as its European peers. In addition, a strong capital backbone with a high density of private capital, solid financial institutions, and corporate investors fuels the ecosystem. What's more, the flow of capital is further facilitated by regulations that allow pension funds to invest up to 5 percent of their assets under management into venture capital (VC), thus opening up a largely untapped pool of capital, the use of which is mostly prohibited in other European countries.

Finally, accessing highly skilled, relevant talent is addressed in two ways. First, homegrown talent is nurtured through dedicated, local AI training and education initiatives. Second, business-friendly

<sup>8</sup> Source: WIPO; IMF.

<sup>9</sup> Source: Dealroom; AI Index Report, Stanford, 2022; Elsevier/Scopus; NetBase Quid.

tax and shareholding regulations and seamless digital administration processes make recruiting top talent from abroad easier.

**“We should not fear new technologies but the continuation of old ones.”**

—Peter Kofler, Danish Entrepreneurship Association

### UNLOCKING THE POTENTIAL OF PENSION FUNDS: CASE STUDY OF SWEDEN

Sweden has created a distinct relationship between pension funds, private equity venture, and venture funding through adjusted pension fund regulations. The allowance for so-called “alternative investments” – including VC – for pension funds increased from 5 percent to 40 percent in 2018. Additionally, the state-owned pension fund AP6 is allowed to invest directly into unlisted companies, thus enabling direct VC investments by the state fund. These measures have significantly increased the share of domestic pension funds invested in VC. Additionally, pension funds significantly invest in buyouts of unlisted mature companies, resulting in an attractive market proposition for scale-ups.

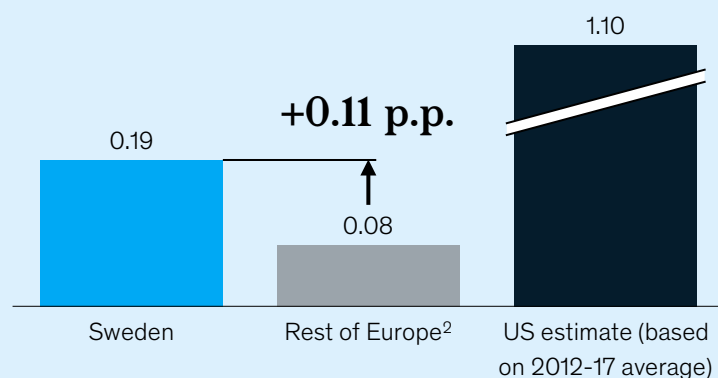
The result is a win–win situation: Swedish VC companies and start-ups benefit from domestic investments while Swedish pensioners reap the benefits of VC investment, with a 21 percent return reported by AP6 from 2013 to 2022.

Within Europe, Sweden is a unique example<sup>10</sup> (see Exhibit 14). If European pension funds invested 1 percent of their assets under management into VC – similar to the United States – a total of €100 billion in additional VC volume could be added.

Exhibit 14

### Sweden enables pension fund investments in VC at significantly higher levels than the European average

Share of pension fund commitments to VC, 2017-21, % of increase in AuM by pension funds



1. Incl. both public and private funds

2. EU-27, UK, Switzerland, Norway, excl. Sweden

Source: Invest Europe/EDC; OECD; AP6.se; Prequin; expert interviews; McKinsey

<sup>10</sup> Source: Invest Europe/EDC; OECD; AP6.se; Prequin; expert interviews.

## MAKING START-UPS A COUNTRYWIDE PRIORITY: CASE STUDY OF FRANCE

France’s approach to entrepreneurship is rooted, in part, in a practice of establishing government institutions dedicated to growing the start-up ecosystem. La French Tech is one of these institutions. The initiative is a government body established to support the French start-up community. La French Tech is led by a team of entrepreneurs and tech experts – combining sponsorship and engagement with a dedicated and experienced executive team to manage the implementation of its programs. The following examples demonstrate how the institution is addressing two different “growth goals” for the start-up ecosystem in France.

First, La French Tech focuses on the scaling success of existing start-ups. The organization promotes VC by, for example, orchestrating the investments of institutional investors. This focus has helped drive a significant increase in both early- and late-stage funding over the last ten years, thus exceeding the European average (see Exhibit 15). Since its inauguration in 2013, La French Tech has established clear targets and performance tracking of the French start-up ecosystem. In 2019, a goal was set to develop 25 start-ups in the country into unicorns by 2025. That goal was achieved in 2021, four years ahead of schedule.<sup>11</sup>

“Everyone understands that entrepreneurship is a priority for France now.”

—Albertine Lecointe, Qonto

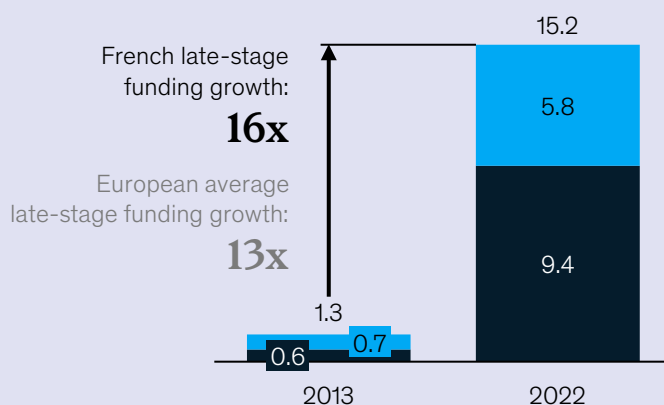
Second, through its Tremplin initiative, La French Tech seeks to ensure that all innovation-minded people in France have a fair shot at entrepreneurship. By focusing on those whose access to entrepreneurship has been limited by structural barriers, Tremplin provides funding, training, and mentorship to increase the number and diversity of France’s entrepreneurs.

Exhibit 15

### Funding in France has grown tremendously as a result of its support initiatives

Total funding development in France, \$ bn

■ Early-stage funding ■ Late-stage funding



Source: Dealroom; La French Tech; Sifted; expert interviews; McKinsey

<sup>11</sup> Source: Dealroom; La French Tech; Sifted; expert interviews



# National best practices are a blueprint to uplift the individual European start-up ecosystems

European countries can significantly improve the success of their individual start-up ecosystems by implementing the best practices that have been key drivers of the selected successes seen across Europe – for example, Estonia's ability to attract talent and companies. If applied individually, these best practices could boost each and every start-up ecosystem to new levels. These best practices span across measures to improve human capital, increase the availability of critical financial capital, and boost the technological backbone of the ecosystem while laying the foundation for successful entrepreneurship. To implement them, commitment from local stakeholders, including entrepreneurs, investors, and local authorities, will be essential. Together, these factors foster successful venture formation and scaling and can drive individual start-up ecosystems to new levels. The ten best practices we observed across European markets, including Estonia, France, Switzerland, and other countries, are:

**“We finally need more doing, not more talking.”**

—Sebastian Fuchs, SUP46 (Swedish start-up association)

1. **Build the domestic talent pipeline.** Several initiatives could increase the number of would-be entrepreneurs, including spinout incubators and university entrepreneurship curricula. Oxford University Innovation and Cambridge Enterprise in the United Kingdom are examples of institutions that foster entrepreneurial spirit and help equip innovation-minded individuals with the skills to found companies.
2. **Pave the way for international talent.** Attract international talent by offering unbureaucratic and fast visa processes for international talent along with founder and employee-friendly ESOP benefits, potentially including reduced (capital gains) taxation and share options, for example, as provided by the start-up visa program in Estonia.
3. **Foster the development of best-in-class technology.** By ensuring sufficient R&D spending, markets can make critical investments in the development of technology. By designing competitive access to funds, countries can promote regional innovation and business hubs focused on selected technologies or sectors, such as the Trust Valley AI hub in Switzerland.
4. **Incentivize investment.** Tax incentives, such as those offered by SEIS and EIS in the United Kingdom, can boost both private early- and late-stage VC investments, giving start-ups the capital they need to launch and, critically, to scale up.

**“It is also a function of time; the UK has been longer in the start-up game and has shown they want to be in it.”**

—Sam Gyimah, Lakestar

5. **Expand the set of funding sources.** Allow institutional sources of funding, such as pension funds or universities, to commit investments to VC to increase the availability of domestic capital, as enacted by the Swedish pension fund regulation.

6. **Show clear commitment.** Local authorities can boost a country's start-up ecosystem by showing commitment and clear accountability to fuel the confidence of ecosystem stakeholders.
7. **Establish leaders.** Supporting emerging champions to scale up successfully will create successful role models that refuel the ecosystem with investments and expertise – comparable to the community of Swedish founders.
8. **Define a vision.** Set clear priorities and define a vision with concrete targets, regular performance tracking, and initiatives tailored to issues identified, as introduced by La French Tech in France.
9. **Create accountability and ownership.** Mandate clear ownership for the execution of the start-up ecosystem strategy and an “account management” system to support emerging champions similar to the La French Tech initiative in France.
10. **Reduce bureaucratic obstacles.** Ease the process of starting a business through digitalization and fast, uncomplicated, and low-cost administrative protocols, such as the e-Business Register platform in Estonia, to lower the threshold and cost of entrepreneurship.

**“Let’s copy with pride what works; we do not need to reinvent the wheel.”**

—Joern Nikolay, General Atlantic

# A coordinated pan-European strategy can foster start-up successes beyond domestic markets

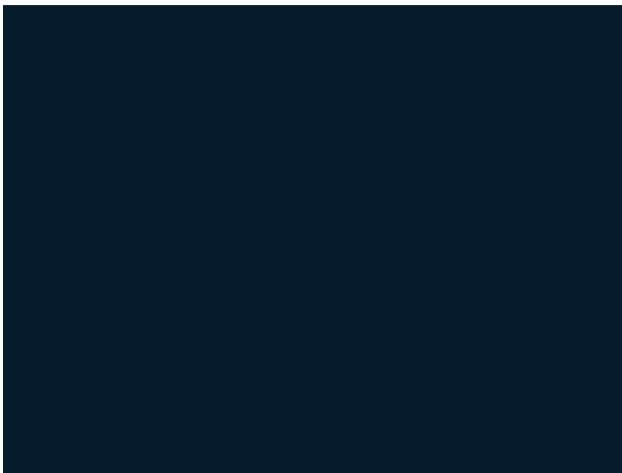
Today, Europe is a patchwork of relatively small economies with widely varying languages, cultures, and regulatory frameworks (see Exhibit 16).

This presents several challenges, including making it difficult for companies founded in one country to scale up beyond their own borders. It also constrains the establishment of cross-country technology hubs.

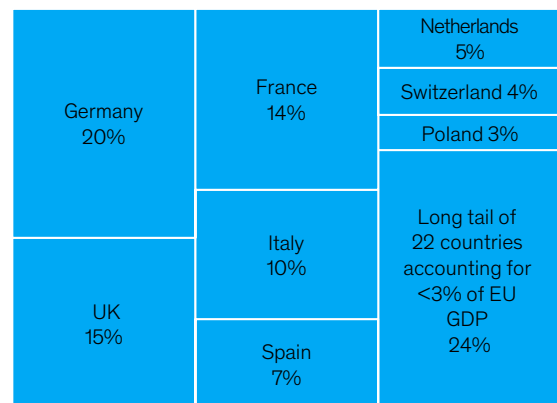
Exhibit 16

## Europe is a mosaic of comparatively small, diverse economies

US ~\$25.5 tn



Europe<sup>1</sup> ~\$21.1 tn



Note: Figures may not sum to 100% due to rounding

1. EU-27, Switzerland, UK, and Norway

Source: World Bank; Eurostat 2021; IHS Markit; McKinsey

In addition, Europe as a whole has acted relatively conservatively in terms of capital market structures. This has led to a less active stock market, less active individual investors, and fewer opportunities for large-scale institutional investments (for example, from pension funds, as in Sweden). Furthermore, Europe is also taking a more conservative approach to the regulation of new disruptive technologies.

To truly bolster the European start-up ecosystems, these hurdles need to be overcome in addition to raising the performance of individual countries. Therefore, implementing three elements on a pan-European level will be crucial:

**Promote scale by reducing fragmentation.** Reducing fragmentation through increased cross-border collaboration and joint regulatory efforts together with the bundling of resources can fuel venture building and scaling across Europe. To drive harmonization and position Europe as an attractive talent market, there are two key levers: First, promote a European single market by developing a joint corporate rule book especially for high-growth firms, which may include driving the harmonization of standards for taxes, company regulation, labor rules, and administrative processes. Second, European countries should collectively assess the potential of implementing favorable employment regulations to attract and retain high-skilled talent, for example, by

creating best-in-class ESOP regulations similar to the Baltic states. In addition, bundling resources, especially pooling public innovation funding via competitive grant allocation, can support the buildup and scaling of international technology superhubs. This can be further fueled by softened regulations for institutional investors, especially pension funds.

**“We should start acting European, we cannot afford to have 27 different regulatory frameworks for investments”**

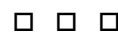
—Martin Bresson, Invest Europe

**Create a level playing field across Europe.** Providing a safe space for European start-ups to scale up before competing on the global market will support young start-ups in their plans to scale up alongside large corporates and compete internationally. To set up such a support and protection system, large corporates should be deployed more as supporting structures than as competitors. Within this model, they would, for example, offer start-ups access to their networks. In addition, to reduce the burden of high fragmentation and competition within Europe, monitoring competition with international players will be key to offering a safe space for European start-ups to develop a global presence. Finally, a single point of contact at a transnational level is needed to support such changes and push the effort for cross-border scaling. This position would also help to create clear accountability and maintain open communication in the evolution of the European start-up ecosystem.

**“The lack of a real single market in Europe poses the largest barrier for scaling.”**

—Christopher Steinau, Lightrock

**Pick up the pace.** Speed matters in start-up success. Instead of passively focusing on precautionary consumer protection from new technologies, Europe should focus on a solution-oriented approach to help European start-ups shape critical technologies and drive the region's innovative footprint. This is in line with implementing an accelerated approval process for tech innovation similar to the European Medicines Agency fast track. Taking a proactive approach to disruptive technologies will be key to Europe's success in becoming an innovation driver.



Altogether, we see significant potential to be unlocked in Europe by improving the performance of individual start-up ecosystems and by tackling the region's systemic hurdles. Members of the European start-up ecosystem can learn a lot from each other and implement the models, initiatives, and approaches that further facilitate the launch and growth of successful start-ups. A close collaboration of national and regional stakeholders, including entrepreneurs, investors, legislators, government officials, and non-governmental organizations, could help establish the basis for this success. The time is now to learn from each other and tear down existing boundaries, finally enabling European start-ups to thrive internationally.

**“Our national start-up feats mean little unless we stand united as Europe.”**

—Kat Borlongan, Contentsquare

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