Professional MBA

& Entrepreneurship & Innovation

A study on world entrepreneurship: Analysis of similarities and differences which affect how one starts and grows a business in the United States and Europe

A Master's Thesis submitted for the degree of
"Master of Business Administration"

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Vienna, June 2018

Affidavit

I, **Marco A Marquez**, hereby declare

1. that I am the sole author of the present Master's Thesis "A study on world entrepreneurship: Analysis of similarities and differences which affect how one starts and grows a business in the United States and Europe", 77 pages, bound, and that I have not used any source or tool other than those referenced or any other illicit aid or tool, and

2. that I have not prior to this date submitted this Master's Thesis as an examination paper in any form in Austria or abroad.

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Abstract

This thesis aims to investigate the advantages and limitations of starting up a business in Europe and the United States. This paper contributes to the discourse of where an entrepreneur will find the most suitable location for his or her business.

In order to answer the research questions presented on this paper, a qualitative, exploratory and abductive methodology was chosen as appropriate. This thesis draws on findings from the field as well as academic papers. The author of this paper selected three major ways of gathering data: a 15-question survey given out to entrepreneurs and employees of SMB organizations, many in-depth semi-structured interviews with seven entrepreneurs and finally, complemented by literature research from studies, articles, books and other academic sources.

The findings show that there are many factors that affect the rate at which entrepreneurs start and grow a business. On this study, a deep-down analysis is performed of each of the most repeated patterns and broken down into two categories, “Major” and “Minor” factors, an order given by a ranking that was provided by the interviewees and survey respondents. By analyzing the most important business-related aspects of each territory, based on quantitative data from each region – the hope is the reader can build a model to choose which territory would work best for his or her specific scenario.

Keywords: Entrepreneurship, Startups, Europe, United States

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Marco A Marquez
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Lists of Acronyms / Abbreviations

BSD: Business Dynamics Statistics. An American Longitudinal Business Database that's a confidential database available to researchers throughout the network of Census Research Data Centers.

DACH Region: Region made up of Germany, Austria and Switzerland

EU: European Union

"Exits": Term used for a startup when a founder/investor/VC sells or leaves the business, effectively realizing the gains (or losses).

GDPR: General Data Protection Regulation

GPS: Global Positioning System

OECD: Organization for Economic Co-operation and Development

SBA: Small Business Administration

SMEs: Small and Medium Enterprises

SMBs: Small and Medium Businesses

"Unicorn" Company: Privately held startup company valued at over $1 billion USD

VC: Venture Capital

Western Europe: UK, Ireland, Portugal, Spain, France, Belgium, Netherlands, Luxemburg, Switzerland, Italy, Germany, Denmark, Norway, Sweden, Finland, Liechtenstein, San Marino, Iceland and Austria.

1 Introduction

1.1 Background

In recent years, it is becoming common to hear from politicians their increasing effort to stimulate entrepreneurship in an attempt to try and improve the country's economy and its growth. This is something that has been happening not only in the United States, but Europe and the whole world. As an example, in 2012, the United States introduced an act titled: "Jumpstart our Business Startups Act (JOBS)", which was a law intended "to encourage funding of small businesses in the United States by easing many of the country's securities regulations." (Wikipedia, 2018). Similarly, the European Commission had already introduced a plan in 2008 named "The Small Business Act of 2008" where the goal was to improve the approach to entrepreneurship by simplifying regulatory and policy environment for small businesses by trying to remove barriers for their growth. Four years later, another plan named "Entrepreneurship 2020 Action Plan" followed up to refresh the effort in Europe. This plan had lofty goals such as "answer to [the] challenges brought by the gravest economic crisis in the last 50 years. It [was] a blueprint for action to unleash Europe's entrepreneurial potential, remove existing obstacles and revolutionize the culture of entrepreneurship in the EU." (European Commission, 2018). While these plans were huge steps on the right direction, they focused almost exclusively on the regulations that the government had control over. Naturally, there are other factors that are outside of their legislative control that affect the likelihood of a citizen to start and grow a business.

When one is launching and growing a new enterprise, the location where the business is headquartered is a crucial factor that could potentially determine the company's success or failure. Even in this age of virtualization and globalization, where most of your revenues may come from the online world and you can hire remote workers and network through email – the physical location of your headquarters is still a vital decision for your business that should not be taken lightly.

As success does not grow in a vacuum, it's important to consider all of the factors that lead to success and try to surround yourself with as many as possible. Having a groundbreaking idea in the wrong place can cause the business to not be as successful as it could be elsewhere. In many cases, entrepreneurs may not be able to: get the funding needed, hire the experienced domain-experts needed or have access to the pilot market to survive among other things. Therefore, it's clearly important to be located where the ground is fertile for a new business to grow and to sustain that growth.

By investigating the factors that contribute to the success or failure of a startup in two of the most developed regions in the world, the author aims to contribute to the entrepreneurial community with suggestions for future entrepreneurs who are deciding whether to start a business in Europe or the United States.

1.2 Statement of the Problem

The creation, development and growth of entrepreneurs forms the bedrock of all business evolutions and economic miracles in any part of the world. Due to this, it should be of importance for governments to create an environment that's prone to breed new businesses. This paper will focus on what two sets of governments: the council of the European Union and American Federal government, are doing to promote the sprouting of new businesses as well as the growth of these small businesses. In addition, this paper will also look at societal factors also affecting entrepreneurship.

Currently, Western Europe has a population of approximately 200 Million people; out of which, only 8 Million people – about *4 percent* of their population is either an entrepreneur or playing a leading role of the development of an idea (World Economic Forum, 2016). Comparatively, the United States has approximately 300 Million people; out of which, 27 million working-age Americans – nearly *10 percent* of its total population – are starting or running a new business (Buchanan, 2015 and Singer et al., 2015). It has also been proven that at least part of the reason for America's recent economic success has been due to the ability to build an ecosystem for entrepreneurs in the Silicon Valley and other regions in America (Wu & Atkinson, 2017). Unfortunately, Europe is still lagging far behind the United States when it comes to rate of creating and growing businesses. To make matters more troublesome, between the year 2004 and 2013, the share of Europeans preferring self-employment over a salaried employee dropped in 23 out of 27 EU Member States (EU Commission, 2013). This drop could be explained as a repercussion due to the "most severe economic crisis [Europe] has seen in 50 years [where] there are over 25 million unemployed" (EU Commission, 2013). It is very understandable that when an economic crisis arises, citizens become less risk-prone and seek out safe, sustainable and predictable income – which a salaried employee will have, and a starting entrepreneur won't.

Why does this matter? Why is this a problem? The main reason is because, as we will show, it is widely accepted that entrepreneurship is beneficial for economic growth and development of a country. Additionally, entrepreneurship is constantly linked with the reduction of poverty (United Nations, 2013). A proof of this is the substantial increase in entrepreneurship in countries like China where, thanks to this, extreme poverty rate fell to 12% of the population in 2010 from 84% in 1981 (Reddy, 2013). As it has been shown, China's increase in entrepreneurship and the privatization of many previously state-owned industries played an incredibly important role in the Chinese economic reform (Wikipedia, 2018).

1.3 Research Objective

1.3.1 Research Questions

Speaking broadly, the main objective of this document is to find out the factors that affect entrepreneurship's development in Europe as well as the US through the use of empirical, analytical and descriptive research. Additionally, this document will also examine the following topics:

- Find out aspects that could potentially hinder entrepreneurs from engaging in a new venture creation or growth of an existing business in all of Europe

- Discover which factors have positively affected entrepreneurs when trying to create or grow a business in the United States

The aim of the study will also be to answer the following questions:

- What is the explanation for the increased entrepreneurial activity in the United States?
- Which meaningful differences and similarities do we see between the United States and Europe when starting a business and how do these differences or similarities affect the country's rate of creation and development of young companies?
- Which of the differences affect the entrepreneur's decision the most to start a business in a specific location?
- What is the European Commission doing to increase the number of businesses that are started in Europe and grow those that are already in Europe?

This paper shall use research papers, scientific journals and other academic studies as well as many online surveys and one-on-one personal interviews to further find out the factors that affect entrepreneurship and its development. By focusing on the advantages and disadvantages of each location through data-backed research, the author hopes to give hands-on recommendations to exercising and aspiring entrepreneurs about which location will help their startup flourish.

1.4 Thesis Outline

1. Introduction

The introduction chapter aims to give the reader the background necessary to understand the study as well as the reason behind it and why it should be considered as relevant. In addition, the objective and methodology used to solve the problem is also outlined.

2. Theoretical Background

This chapter presents the theoretical framework necessary to understand the study. The goal is to provide the reader with an introduction and background into startups in the United States and Europe as well as their importance. Using gathered research, the author presents certain aspects of starting a business in Europe against the United States.

3. Methodology

In this chapter, an explanation on how the empirical data was gathered is presented to the reader. Gathering the data was done using a multi-step process, which is outlined in this chapter. In addition, there is also a detailed explanation on the surveys done and also the interviews of the founders.

4. Data Gathering

This chapter goes hand-in-hand with the previous chapter as it is a continuation of it. After understanding the methodology of how to address the research questions and topics, the reader will be able to get a brief description of each how the author gathered the data. A brief description of the literature used, the survey and the interviews done will be presented. In this chapter, one will find information about the interviewees and their professional background. It is important to note that there was an interviewee that wished to remain anonymous, so a biography was not included but his opinion will be taken into account and referenced throughout the paper.

5. Analysis of Results

Using this chapter, the author will analyze the results from the interviews and the surveys and see how they relate to the theoretical background presented in Chapter 2. This analysis will be focused on answering the main research questions and topics posed in the introduction chapter.

6. Conclusion

For the final chapter, the conclusions that can be gathered from the research will be presented. Also, further implications and potential limitations of the study will also be discussed. Lastly, there will also be some concluding remarks regarding this thesis.

2 Theoretical Background

In this chapter, the reader will learn the basic theoretical background needed to understand the study, the reasons behind the study and receive an introduction to the factors that will be analyzed throughout this paper. The first subsection will focus on the importance of entrepreneurship and why countries should strive to promote entrepreneurship as much as possible. This correlation is backed by data from distinct studies, research papers, surveys and other sources. The second subsection goes into the importance of entrepreneurship in our world. Entrepreneurship is the way the economy grows and new ideas, products, services come to life. In this subsection, one will analyze the factors and reasons why someone would want to grow the number of entrepreneurs in an area.

2.1 What is entrepreneurship?

In recent years, "startup" has become a fashionable word, often as a synonym for fortune, popularity, fame, power and a lot more. From the public's perspective, entrepreneurs and their startups have been reduced to those people and companies that want to create world-changing businesses in order to quickly reach $1 billion or more in market value: the fabled *"unicorns".* However, the reality is that the term that we need to look into is what *really* is "entrepreneurship". The etymology of the word derives from the French and German word for "undertake" – "entreprendre" and "unternehmen", respectively (Roberts and Woods, 2005). There have been many definitions, starting from the one coined by Richard Cantillon in 1680 who defined "entrepreneur" as someone who innovates and takes risk with the hope of creating economic value. It is because of this that we can say that entrepreneurship is, by definition, "the process of attempting to make business profits by innovation in the face of risk" (Tan et al, 2008). Another popular definition comes from the famed professor of Harvard Business School (HBS), Howard Stevenson. According to Stevenson, "entrepreneurship is the pursuit of opportunity beyond resources controlled." (Sinoway & Meadow, 2012). In other words, the entrepreneur will be anyone who notices an opportunity and decides to pursue it regardless of the resources currently at their disposal. The real beauty of this definition is that it doesn't pigeonhole entrepreneurship to only founders of unicorn companies, but also small "mom and pop" shops (known as microbusinesses), social entrepreneurs and intraprenuers, employees within a company who promote innovative product development and marketing.

2.2 Entrepreneurship's Importance

Thanks to the definition above, one can see why entrepreneurs are thought of as national assets to be worked with. Assets that need to be motivated, grown, refined and extended to the best of their abilities.

It's been proven, that regions with higher rates of entrepreneurship show higher levels of output and productivity (van Praag and Versloot, 2007). By doing an investigation, one quickly realizes that entrepreneurship is of incredible importance to the United States as well as Europe for a number of factors. By analyzing data available in journals, studies and other research documents it's easy to see the following effects as consequence of promoting entrepreneurship:

- ***Creation of Wealth and Economic Growth***

One of the most important reasons why entrepreneurs should be sought out by society is that they are wealth creators. They commonly create wealth for themselves, their families and their societies. One of the most fundamental works of classical economics, "The Wealth of Nations" by Adam Smith, explains how a nation's growth in wealth has at its core, one principal: changes in division of labor. Refinements in the division of labor in an economy lead to increased specialization, which in turn leads to great efficiency and increase in wealth. Further, it can be said that efficiency can come from either having a worker become more skilled with his/her movements or, even better, build a machine that assists the worker. Using Smith's analysis, we could say that entrepreneurship is "the study of human actions that lead to changes in the division of labor" (Michael, 2007). In other words, entrepreneurship is literally defined as the creation of wealth.

This shouldn't come as a surprise as this is one of the main reasons why an entrepreneur is willing to endure the challenges, long hours and excruciating days. While most entrepreneurs are passionate about the problem they're trying to solve, a lot of them are also motivated by the potential sudden increase of their personal wealth. However, besides the personal wealth, entrepreneurship creates wealth for the people that are employed by the company, the complimentary companies, the local economy and many others. A startup also creates wealth at the national level in the form of taxation, which is then redistributed for their community's services and members that need help the most. By creating a product or service that adds enough value for people to be willing to pay for it, entrepreneurs are creating wealth which is essential to the growth of a country's economy.

Below, we should a diagram of the most complete process of how a country can utilize their social, cultural and political context to create an environment suitable to create businesses which in turn are able to promote a nation's economic growth.

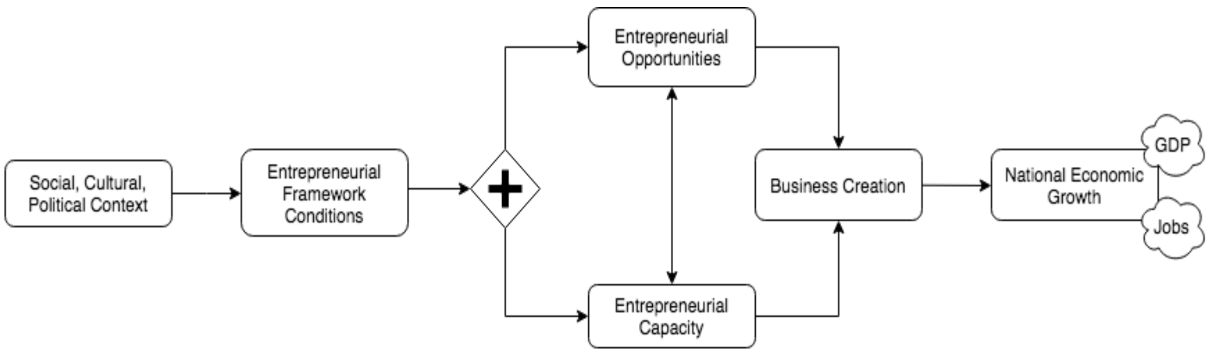


Figure 1: Diagram summarizing how cultural factors affect entrepreneurial conditions which in turn create business which grow the economy by increasing GDP and creating jobs. Source: Own illustration, based on Reynolds, 1999.

- ***Reduction of Unemployment***

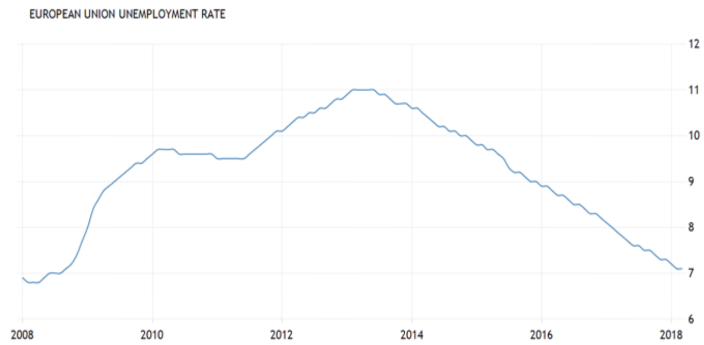


Figure 2: EU Unemployment Rate (2008-2018). Source: Trading Economics, 2018.

Entrepreneurs, by nature and definition are job creators, rather than job seekers. By looking at the definition of an entrepreneur, it's easy to see that most would create new businesses and, very quickly, would also require hiring employees. Furthermore, a new business also triggers cascading effects where other new ventures or businesses are born to support the aforementioned venture. This obviously increases the number of businesses and in turn, the number of job creators. All in all, this speeds up the economic development of the nation.

Digging deeper into both of the territories of our study, one can see that there is a strong link between increase of entrepreneurship and the reduction of unemployment. One very clear example happened in Europe throughout the past decade. After suffering from one of the most devastating financial crises of recent years, the EU was able to introduce policies to fight unemployment by promoting entrepreneurship. At the height of the financial crisis in 2008, the European Union had an unemployment rate of 7% but quickly grew to almost 10% in less than 3 years (Trading Economics, 2018). To make matters worse, the European debt crisis increased the unemployment rate which reached 11% in 2013 (Trading Economics, 2018). During the year 2014, countries like Spain and Greece had youth unemployment rates of 53.2% and 52.4%, respectively (Eurostat, 2018). It was due to this sudden increase in unemployment that the EU Commission decided to act and try to combat unemployment with two plans that

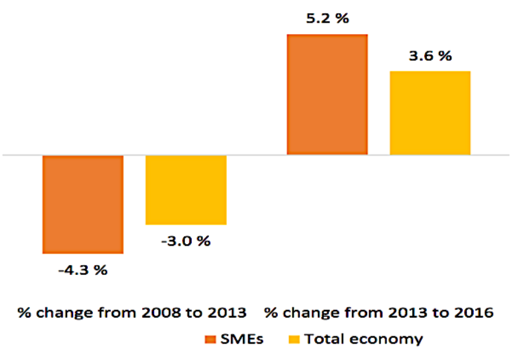


Figure 3: Change in employment rates (in %) of EU-28 SME from 2008-2013 and 2013-2016. Source: EU Commission, 2017

would incentivize entrepreneurship. The first plan was the "Small Business Act" (SBA) which was enacted in 2008 while the unemployment rate was just increasing. The second act was the "Entrepreneurship 2020 Action Plan" which was introduced in 2013, at the peak of the unemployment rate. Among the many goals these plans had, it explicitly stated that "...the role of small and medium-sized enterprises (SMEs) in our society has become even more important as providers of employment opportunities and keyplayers for the wellbeing of local and regional communities.". After these two plans have now been enacted, the EU is reaping the rewards as there has been an increase of SME's all over the EU. An example of this was stated by a European Commission document where it stated that: "SME employment grew almost 50% faster than economy-wide employment from 2013-2016" (European Commission, 2017). As shown on Figure #2 and #3 above, both of the plans had a positive impact on the total economy as well as SME's. There was an increase in employment rate of 5.2% and 3.6% for SME's and the total economy, respectively. The progress didn't halt in 2016, but rather kept improving. Naturally, this improvement can't only be attributed to the new entrepreneurship-related legislation introduced but also to the overall improvement of the world's economy since the worldwide recession in the late 2000's. Nowadays, European unemployment is the lowest it has been in recent years, at 7% (Trading Economics, 2018). This shouldn't come as a surprise as it has been proven that increasing the number of SME's and the number of entrepreneurs will have a positive influence on employment rates (Audretsch, 2007).

Changing scope to the United States, the same phenomenon can be seen. By looking at the analysis done by Tim Kane from the Kauffman Foundation, one can see that using the annual data from the Business Dynamics Statistics (BDS), for age zero firms, "startups create an average of 3 million new jobs annually" (Kane, 2010). Contrastingly, all other firms (including firms established centuries ago), are "losing 1 million jobs net combined per year" (Kane, 2010). This obviously means that it is on the country's own benefit to promote SME's growth rather than bigger firms. Based on the research, this will produce a reduction in unemployment (Audretsch, 2007). Unsurprisingly, we can conclude that regardless if we're analyzing the United States or Europe, Entrepreneurship and Entrepreneurs are improving and growing the economy of the country where they reside.

- ***Increase of Innovation***

Before diving into the explanations as to why increasing the rate of entrepreneurship increases innovation and why it is beneficial to a society, it's important to explain the difference between "Innovation" and "Entrepreneurship". In our modern times, identifying the differences between the two terms can be quite challenging. Even when talking to some entrepreneurs one finds them often using these terms interchangeably, as if they were synonyms. The challenge is that these two terms are not the same and confusing them can lead to a misunderstanding on how one can promote the other.

Innovation, at its core, is introducing a change of some kind to a product or service that adds value to an organization or person. When it comes to innovation, it is more about the ideas rather than the commercial outcome. Whereas when we talk about entrepreneurship, we're referring to something that is more commercially driven – As mentioned above, entrepreneurship is commonly defined as the creation of wealth and almost every single time, it leverages innovation. As innovation is almost a dependency to entrepreneurship, it's easy to see why there is a direct relationship between entrepreneurship and innovation. By increasing the number of businesses that are created, innovation is bound to also increase.

In recent years, there have been numerous studies that outline how innovation is one of the most important ways a government can help drive economic growth and competitiveness (Capello and Nijkamp 2009; Cooke et al. 2011; Maradana et Al. 2017). Because it has been proven that economic growth is a byproduct of increasing innovation, then it is for the region's best interest to keep innovation in mind when aiming for economic growth.

- ***Positive Effect on the Social Welfare of the community***

One of the fastest growing types of startups in the world are those that "focus on achieving wider social, environmental or community objectives." (EU Commission, 2017). These types of startups are commonly known as "social enterprises" or "social entrepreneurship". These businesses are commonly non-profit organizations that are involved in the creation of products or producing services for the blended purpose of generating revenues as well as improving our society, community and world. Although any startup that focuses on solving any form of social problem is a social enterprise, the most common themes fall in following categories:

- **Personal Social Services:** Health, well-being, medical care, education, maternal health, childcare services and services for elder people.
- **Environmental Conservation:** Recycling, environmental protection, science, climate research, global warming, etc.
- **Work Integration:** Training and integration services for unemployed, people with disabilities, immigrants, war veterans and other people who may be disadvantaged.
- **Local Development of Disadvantaged areas:** Social enterprises that focuses on integration from remote rural to urban areas, development of impoverished neighborhoods, development aid and cooperation with 3rd world countries.

Looking at the categories above, it is easy to see why promoting the growth of social enterprises would be beneficial to a country and their community. While these businesses aren't focused on profits and creating wealth for the country, they aim to improve the well-being of the people that surround them. It is due to this reason that the EU introduced the "Social Business Initiative" (SBI) in 2011. The goal of this initiative was to "support the development of social enterprises, key stakeholders in the social economy and social innovation" (EU Commission, 2017). Ever since the start of the initiative, the number of social enterprises in Europe increased and are engaging in new fields (European Commission, 2016). This has led to the increased focus on areas related to the citizen's wellbeing.

Without a doubt, it is easy to say that promoting entrepreneurship as a whole, but especially social entrepreneurship, has a direct impact on the country's social welfare.

- ***Entrepreneurs are more likely to donate***

Finally, the last important benefit to mention is that entrepreneurs are deeply committed to philanthropy. Based on the survey "Entrepreneurs & Philanthropy: Investing in the Future" conducted by Harris Interactive and Ernst & Young, approximately 90 percent of entrepreneurs donate money, both personally and through their companies. In addition, 70 percent of them also donate a resource that is even more important than money, their time. Most entrepreneurs, 61% of them, currently sit on the board of a non-profit, and half have been the chairperson of the board for a non-profit at some point in their life (Fidelity Charitable Gift Fund, 2010).

Due to the factors presented, one can envision that it is in the region's best interest to create an environment that will help the growth and creation of entrepreneurs and startups. By doing this, a business-friendly environment will produce an increase in wealth, reduction of unemployment, incremental innovation and improve the social welfare of the community.

3 Methodology

Our investigation was tailored to answer the research questions mentioned above. To accomplish this, the research consisted of a multi-step process which is outlined below.

3.1 Literature Review

The first step was to gather as much information from subject-matter literature so that it could be read, analyzed and reviewed. As the area of entrepreneurship has been undergoing a rapid revolution in Europe, the research was purposely focused on literature as recent as possible. The literature included scientific journals, reports, textbooks and public policy acts. This literature formed the knowledge base used to build the survey and guideline questions for the interviews which would help the author get data that could be analyzed and come up with conclusions about the subject.

3.2 Surveys

As a second step was to use the literature gathered to gain the knowledge necessary to build a list of factors which could **potentially** influence entrepreneurship, regardless of the location. These factors were then reverse-engineered into two questionnaires that would seek to find whether the factor was truly one that affects the majority of potential entrepreneurs. One of the questionnaires was to be used for a non-reactive scientific research in the form of an anonymous electronic survey. In order to maximize the number of responses, the anonymous survey was short as it contained only 15 questions. Most of the questions focused on finding out more information about a specific topic. Our research sample for this questionnaire consisted of a very broad range of people, in both the US and Europe. There was only one screening question used as a gatekeeper before allowing the user to take the survey. This question would guarantee that the survey-taker had some involvement with SME's, somewhere in Europe and/or the United States. The survey was successfully filled out by 100 founders or startup employees. This survey was written in English and was primarily given out to users in the United States, Germany, Austria and the UK. The survey was taken mainly online, through a mobile phone, however there were a number of cases where the survey was done in person.

3.3 Interviews

The second questionnaire was more detailed and focused on a smaller subset of factors. This questionnaire was used as a guide for interviews that the author had with a series of co-/founders in the United States as well as Europe. The interviews ranged in duration, but the majority lasted between 1 and 2 hours. As the majority of these entrepreneurs were author’s acquaintances, the interviews were all different and the interviewees were asked different questions, depending on the relevancy. While all interviewees were asked a minimum set of questions (Questionnaire is attached in Appendix), each of the interviews focused on a specific research question the author wanted to find information “from the field”. Outside of the author’s social circle, it proved hard to recruit other entrepreneurs. In order to get the seven interviews, more than 50 entrepreneurs were contacted via email and/or phone. Due to the importance of body language, all of the interviews were conducted in person or via a videoconference technology.

Finally, based on the results from the research, interviews and surveys; certain conclusions were made regarding the factors that affect the decision of starting and growing a business in US against the EU. The author’s hope is that this paper helps the reader look at the factors that are beneficial to someone thinking about starting a company and decide what would work best for that person’s potential business.

4 Data Gathering

Based on the scientific papers, surveys and other research presented, starting a new enterprise should be of incredible benefit to the local community, state, nation and overall, the world. Since entrepreneurs and their companies positively affect economic growth, it is clear that there should be a huge incentive to try and stimulate the creation of entrepreneurs in a society.

As entrepreneurs aren’t born but made, it is important to have a society that actively promotes an environment where they can be “made”, nurtured and allowed to grow. The importance for this environment is magnified when one considers that the odds of survival are against the entrepreneur. Based on the US Small Business Administration, the failure of a new company within the first **five** years of operation is approximately 50% (SBA, 2012). Looking at European startups, one can also see the same behavior of a survival rate of 50% for the first five-year period (Eurostat, 2018).

This section will provide an introduction on the reactive research that was done in order to gather the factors that promote or deter the growth of startups in the United States and Europe.

4.1 Interviews

In this section, the reader will find information regarding the methods used in order to obtain the results that will be presented in a latter section. Seven entrepreneurs were interviewed from both Europe and the United States and were asked a range of questions. The goals of these questions were to try and answer at least one of the many of the research questions. Due to their background, some of the interviewees were more apt to answer certain research questions than others.

In addition to the seven interviews a larger scale survey was released to 100 entrepreneurs in both the United States and Europe. Most of the entrepreneurs surveyed in America were located in California's Silicon Valley. In Europe, most of the people surveyed where in either Austria, Germany or the United Kingdom.

4.1.1 Interviewees

In order to try and get a spectrum of entrepreneurs, the author set out to interview business owners from both territories, different age ranges, backgrounds, etc. Below, one will find a brief description on each of the interviewed founders.

Silvia Guadalupe Buenrostro, 62 yrs. old, *founder of "Calexico Business Services"*

Silvia is an experienced entrepreneur who founded an accounting, bookkeeping and trucking firm in the year 2000. She has been running the business as CEO since then and has thrived in the small city of Calexico, CA, USA. She worked most of her life in Mexico but moved to the United States shortly before opening her business. For the first two years, she was the only employee of the company, but her husband joined her shortly after. Nowadays, Calexico Business Services has been growing at a steady pace and now employs eight people.

Omar Ramos, 31 yrs. old, serial entrepreneur. Founded and managed three technology companies

Omar Ramos is a young Mexican-American entrepreneur who founded a number of companies ranging from a Sole Proprietorship to a couple of LLC's in the United States. His journey as an entrepreneur started from the early age of 16 while in high school. His initial company, "Dial-Up Extreme" focused on providing internet services to his hometown and surrounding areas. At its peak, Dial-Up Extreme had more than 500 customers paying a monthly fee. After this, Omar moved on to start a couple of other businesses until he settled on a small online business, Orware, where he sells software he develops and provides computer & programming consulting.

Fabian Kromer, 31 yrs. old, *founder of "Kromit GmbH"*

Fabian Kromer is a young entrepreneur who lived in San Francisco for two years before returning to his native Austria to start his business. He founded Kromit GmbH in 2015 as a software and consulting company that focuses on real-time frameworks like Meteor.js. Additionally, his company offers technical consulting for big pharmaceutical companies with specialization on Project Portfolio Management software. In the past three years, he has grown his company by hiring 3 additional people and now offers workshops, consulting and training for many software products.

Augusto Marietti, 30 yrs. old and Marco Palladino, 29 yrs. old. Both are co-founders of *"Mashape, Inc."* later *"Kong, Inc"*

Augusto and Marco are Italian serial entrepreneurs who, by the young age of 30, have already been the CEO/CTO and co-founders of two successful companies. In March 2007, they founded MemboxX in Italy, a cloud service that would store and share any kind of document as well as safely manage all of your passwords and pins. After having limited success with MemboxX, they pivoted and started a new company, Mashape, which grew to become the largest API Hub with over 300,000 developers and 20,000 APIs. After struggling to raise money for two years, they decided to venture to the Silicon Valley. In the United States, they would go on to raise Angel, Seed and Series A funding from Tier-1 investors. Mashape pioneered the concept of using APIs as a business and backbone of software infrastructure. After some years, Augusto and Marco sold part of Mashape's technology to RapidAPI but kept the core API technology and rebranded the company to: Kong Inc. With this new technology, they raised another round (Series B) of funds from Tier-1 investors like Andreesen Horowitz, CRV, Index Ventures and others.

It is important to note that in order to make sure both of their comments were heard without any influence of one another, Marco and Augusto were interviewed independently at different times on different dates.

Thomas Lorimor, 40 yrs. old, entrepreneur. CTO and co-founder of Pathmatics, Inc.

Thomas Lorimor is a seasoned technology executive and entrepreneur with multiple patents to his name. Tom is currently the CTO and co-founder for Pathmatics, a well-funded company that focuses on providing unique, actionable insights that deliver a proven competitive edge to brands, agencies, ad tech, and publishers. Before starting his company, Tom worked for Microsoft for seven years as a development lead.

Confidential Interviewee, European CEO and co-founder of software company

4.2 Surveys

Due to the length of time required to seek out co-/founders willing to interview as well as the time of the actual interview, the author decided to also perform a survey that consisted of 15 questions and could be answered in less than 10 minutes. This survey helped complement the data gathered from the interviews. Our electronic survey was performed in the United States, United Kingdom, Germany and Austria. For completeness, all of the information – including the survey's questionnaire and results – has been attached in the Appendices.

5 Analysis of Results

Within this chapter, one can see the results gathered from the empirical research via surveys and interviews done in the United States and Europe.

As outlined in the "Methodology" chapter, using studies and other scientific literature, we created a list of parameters that would affect entrepreneurship. Not all of the factors appeared to be relevant to all of the entrepreneurs, but it was possible to identify a pattern for most of them. Below, we present the results of the research, based on interviews and surveys completed.

The conclusion of the chapter will outline the key benefits and hindrances of each of the two regions.

5.1 Major Factors affecting rate of entrepreneurship (based on surveys, interviews and literature)

Even though entrepreneurs are commonly known as fearless, independent and constantly solving problems – they are still subject to the environment that surrounds them. Based on the interviews and surveys, it seems that most of the factors affecting the rate of entrepreneurship are government-controlled. Among the many political factors brought up by survey participants and interviewees, the most common factors were: country's political stance on taxes, immigration and labor laws which together heavily affect their ability to take risks by hiring new employees, asking for capital and overall, start and growth of their business. In addition, there were entrepreneurs that really focused on the difficulty to have access to funding as well as the employee's culture. This section will dive deeper into each of these areas to try to compare and contrast each of these between the two regions. This section will focus on the factors that were ranked by survey respondents and interviewees as "major factors" affecting them.

5.1.1 Venture Capital Funding and Exits

The ability to raise money to run a business is pivotal in the success or failure for any startup. In recent decades, technology hubs have cropped up all over Europe that are kindling exciting new companies. Unfortunately, despite the abundance of innovative and talented entrepreneurs, raising substantial capital from European investors remains a challenge when compared to more established investment markets like California's Silicon Valley. By analyzing the results gathered from both locations using the surveys, one can see that there are substantial differences between the two regions. Based on the survey results, approximately 55% of the correspondents had to raise money to start their business – however, most of them could only raise capital "from friends, family and/or business partners". Out of the 9% of businesses that raised money from VC's, the US was accountable for all (2%) of the rounds above 1 Million USD/EUR. Meanwhile, European Venture Capitals focused on smaller rounds with amounts less than 500,000 USD/EUR. This is something very similar to what can be seen in the literature and other public records.

When asked about this to our interviewees, it was clear that raising venture capital in Europe was substantially harder. As an example, two of our interviewees – the founders from Mashape and Kong – encountered issues raising money in Europe, even in their seed round. As stated by Kong Inc's CEO and co-founder, Augusto Marietti:

> *"When we were in Italy, we did ask for funding in Italy for about one or two years. This was a waste of time…Even the seed round proved to be really hard to do in Europe. This is the reason why we decided to move to the United States."*

Their luck completely changed as once Augusto and Marco were in the United States, they were able to raise Angel, Seed, Round A and Round B funding rounds in the subsequent years. Currently, the total funding that Kong Inc has received totals $26.1 Million USD – all of it coming from American Venture Capitalists.

When we probed our interviewees further, it was clear that there were a number of reasons for this disparity between the two Europe and the United States. The differences were analyzed using research papers and complemented & validated by the interviewees. These differences are presented below.

First, it's important to mention that the United States' venture capital industry is more mature as it was established as early as the 1960's which gave it a head start to the one in Europe. Because of this, it is more developed, has greater scale, depth and influence. From our research, we looked at statistics by Venture Pulse and Pitchbook starting from 2007 and one can see that the size of the financing in the US is much bigger than that one in Europe (in terms of volume and size).

VC Investments								
	Value ($m)		Volume (#)		Volume (#)		Avg. Deal Size ($m)	
	US	**Europe**	**US**	**Europe**	**US**	**Europe**	**US**	**Europe**
2007	18,015	2,343	2,332	643	2,144	436	8.4	5.4
2008	17,459	2,634	2,543	700	2,353	484	7.4	5.4
2009	12,311	1,966	2,291	744	2,079	490	5.9	4
2010	15,129	3,637	2,825	968	2,505	653	6	5.6
2011	23,331	3,944	3,893	1,444	3,364	959	6.9	4.1
Sum	86,245	14,524	13,884	4,499	12,445	3,022	6.92	4.90

Table 1: Venture Capital Investment in both territories, from 2007-2011. Source: Pitchbook.

Even when looking at more recent data (2010-2017) from the same source, we encounter the same, very substantial magnitude difference between the two territories:

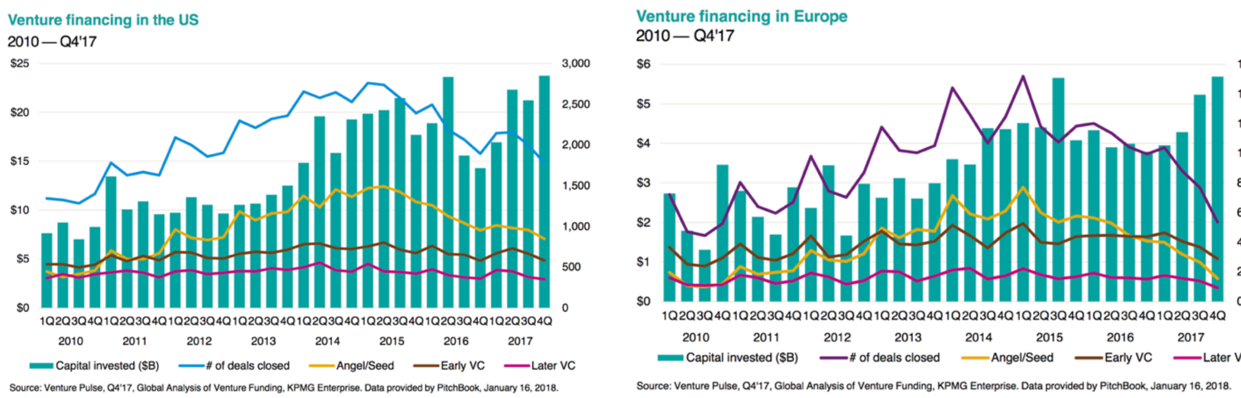


Figure 4: Comparison of Venture Financing in both territories. Source: Venture Pulse using data provided by PitchBook.

Secondly, the European venture capital market suffers from fragmentation due to the sheer number of countries and independent regulations each country has. The United States on the other hand, has fewer barriers when it comes to investing in growing companies. An entrepreneur can raise capital in the Silicon Valley as easily as he/she could raise in New York City or Chicago. The same can't be said about raising capital in Berlin, London or Eindhoven, which are all in different countries and have different laws, customs and languages. Even though the European cities are much closer to one another. As investors like to put their money as close as possible to their environment, this fragmentation plays a substantial frictional factor for growth. To counteract this friction, the EU Commission in 2015, introduced the "Capital Markets Union Plan" which set out to help the "financing for innovation, start-ups and non-listed companies" as well as to "facilitate cross-border investment" (EU Commission, 2018). The aim of this plan was to help remove some of the friction due to cross-border tax when it comes to raising and investing capital in the European Union. However, as we will see in section 5.2.1, this fragmentation is something that's affecting European businesses as a whole and isn't independent to venture investors. An entrepreneur looking to raise capital could easily encounter problems trying to find the capital, but even after struggling with this, he or she may encounter further problems trying to get the money in another country.

Thirdly, there is a big difference between the exit strategies between the two locations. By using data provided by Pitchbook (shown below), one can see, that even though the average investment in the EU is only 2.02 million USD higher in the US, the exit value is approximately 130 million USD higher in the US. This huge difference has many repercussions on the ability and easiness of venture capitals investing in companies.

VC-backed Exits

	Value ($m)		Volume (#)		Volume (#)		Avg. Deal Size ($m)	
	US	**Europe**	**US**	**Europe**	**US**	**Europe**	**US**	**Europe**
2007	44,661	2,586	577	184	210	50	212.7	51.7
2008	27,984	4,768	588	179	202	53	138.5	90
2009	52,408	5,587	676	278	232	74	225.9	75.5
2010	31,837	4,845	682	266	195	89	163.3	54.4
2011	44,238	5,748	618	257	178	80	248.5	71.8
Sum	201,128	23,534	3,141	1,164	1,017	346	197.78	68.68

Table 2: Company "exits" when a venture capital invested money in it. Source: Pitchbook.

There are many hypotheses as to why companies aren't willing to pay as much for a European company as an American company. Some investors believe it is due to

European companies not willing to spend big on acquisitions, whereas American companies are. This is a theory believed by one very well-known German venture capitalist,

> *"The acquisition landscape is bad in Europe. There simply aren't the big companies spending millions of euros on acquisitions, while in the US, it's in big companies' DNA. Your Google, your Microsoft, every year they spend a significant amount on acquiring other businesses." (Hesse, 2016)*
>
> *-Stephan von Perger, VC for Wellington Partners*

By having a bad "acquisition landscape", European organizations commonly struggle to find a VC that will be willing to invest heavily on a series A or B. As the exit isn't as big in the US, European VC's are weary that putting a lot of money in initial rounds as it could potentially damage their return on their investment (ROI) upon exiting.

Another theory is due to the focus of the startups: revenue or growth. As the United States is a huge market, startups usually initially focus on having a high-degree of market penetration by gaining market share so that they gain an advantage over any potential copycats. Based on our survey, more than 70% of our American survey-takers responded that their focus was almost solely on their market share. Whereas for more than 83% of our European survey-takes said that their companies are focusing on revenues/profits. This helps us understand that when one is starting a business in the US, it is common for young businesses to have to wait for several years, sometimes even decades, for the first profits to be produced. The focus is usually on market share rather than revenue. It is due to this that American startups have to rely on continuous rounds of funding hoping to become a "unicorn company". Thus, growth and traction are two of the most important factors for success. Obviously, this means positive cash flow is postponed for years (or decades) after the initial investment has been made. From our interviewees, Marco and Augusto from Mashape/Kong, can attest to this fact. Their company required a substantial amount of money to start their business, so it was because of this, that seeking funding in America was more adequate. Currently, they are fully focusing on expanding and capturing market share all over the world. This focus on market capture allows American startups to have a higher valuation a lot of times solely on the potential to capitalize that market share, but not the actual revenue numbers on their financial sheets.

Contrastingly, European startups focus more on revenue, rather than growth. The reason is quite clear: European startups cannot afford to spend massively on growth because they have fewer opportunities to raise capital due to the limited access to capital in the EU, as explained above. This has caused the European market to become one where investment rounds are smaller. This means that the European market leans towards a more conservative and less patient investment. Meaning that if a European company is a huge success, they commonly “outgrow” the European VCs and either are forced to exit earlier than desired, or they enter the US market after the company reaches a certain stage to keep expanding and hope for a bigger exit.

From our research, the majority of entrepreneurs require capital to start their business. By having less opportunities to raise capital due to availability or fragmentation, the European territory struggles more in starting new businesses and growing those that already exist. This research was validated by our survey and interviews done to founders.

5.1.2 Taxation and Social Contributions

When talking to most of our interviewees and based on the results from our survey, it was easy to see that “taxation” or “taxes” was one of the most repeated factors mentioned. And this shouldn’t come as a surprise as, regardless of where in the world one sets up a company, you will be required to pay taxes. In many countries, especially in Europe, these taxes make up a substantial portion of the employer’s expenditures.

In this world, there are many types of taxes: taxes on personal income, taxes on corporate income, taxes on goods and services, taxes on property and others. These taxes are collected by the government to be used to provide public goods and services for their citizens. In addition, if you’re an employer, there are payroll taxes which focus on the social benefits of the citizens, which may include (depending on the country): unemployment, insurance benefits, accident, injury and sickness benefits, retirement

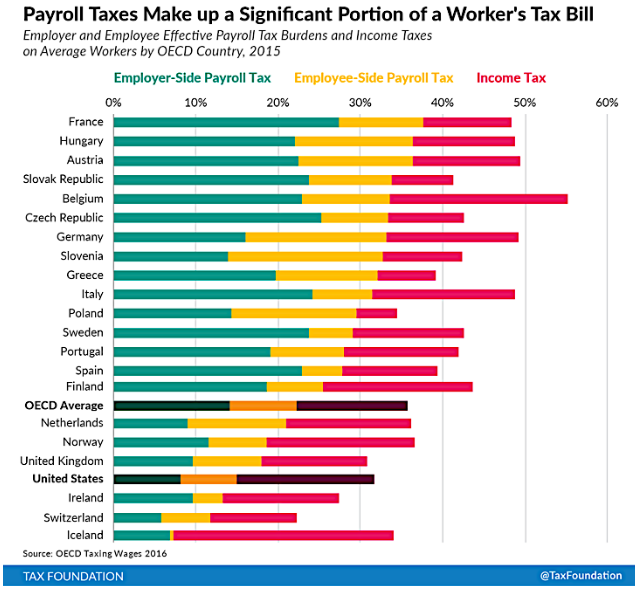


Figure 5: Payroll Taxes for OECD Countries, broken down by type of taxation. Source: OECD, Tax Foundation. Modified by author.

funds, disability and other costs for the community's betterment. Social contributions are compulsory that need to be paid to government by the employer, employee or both, to grant entitlement to receive a future social benefit. When looking at these payroll taxes in European countries, this percentage is very high and most of the time the employer is the one that pays for the majority of it. For instance, as shown on Figure #5, France and the Czech Republic, the countries with the highest tax burdens for employers on wage earners, spend an equivalent of 27.5 percent and 25.4 percent of the average employee's wage. In the United States, the number doesn't even surpass 9 percent.

After talking to many of our interviewees, we realized that "taxes" were a substantial expenditure for all of the profitable businesses. However, when talking to American entrepreneurs, all of them thought of "taxes" as a term that included corporate income taxes but didn't include health benefits. Contrastingly, European entrepreneurs thought of taxes as an aggregate amount including corporate income tax and all social contributions that are forced by their country's law. Because of this, we sought out to separate two of the most important employer-side taxes: *Corporate Income Tax* and *Social Contributions* and see how these affect the rate of growth of startups.

5.1.2.1 Corporate Income Tax

Corporate Income Tax (CIT) is a tax defined as one that is imposed by a jurisdiction on the company's income or capital. This tax exists for both the United States and all major countries in the EU. Because of this, it is important to compare the values in both territories and see the differences and how this could affect the growth of a company.

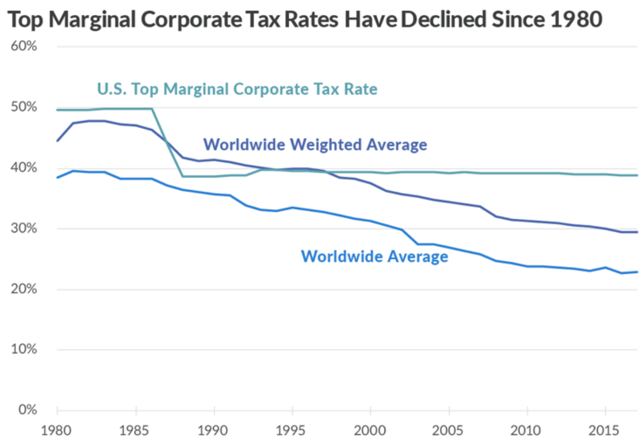


Figure 6: Decrease of Corporate Tax Rates in the last 40 years. Source: Jahnsen and Pomerlau, Tax Foundation

When looking at the historical rates for this tax around the world, one can see that the rates have consistently declined (see Figure #6). In 1980, the unweighted average worldwide statutory tax rate was approximately 38 percent (Jahnsen and Pomerlau, 2017). Whereas, today, that number stands at the rate of approximately 23 percent worldwide (Jahnsen and Pomerlau, 2017). Surprisingly, the United States didn't follow suit and kept a statutory corporate rate of around 35% since 1987 until 2018[1].

Taking a deeper look at the rates in both territories, one can see a huge difference in the statutory rates. Since the EU doesn't have a set rule on corporate tax rates, countries like Bulgaria can have a 10% corporate tax rate and other countries like France can set theirs at 34% (KMPG, 2018). This freedom produces a huge range of values, with an average corporate rate of 18.35% (Jahnsen and Pomerlau, 2017). Contrastingly, the United States' statutory corporate tax rate in 2017 was set to 35%, one of the highest in the world and stood well above the worldwide average.

However, upon further inspection of the rates in both regions, one can realize that simply comparing statutory rates between the locations isn't an appropriate comparison. Comparisons of these tax rates should focus on the measurements that

[1] *Starting 2018, the United States enacted the "Tax Cuts and Jobs Act" which lowered the corporate tax to 21%.*

reflect what companies *actually* pay, not the statutory rate. Looking at the numbers of what corporations in the United States pay, it is easy to see that the rate companies pay is nowhere near the statutory rate. American companies have the ability to use an array of targeted tax breaks and loopholes to significantly decrease the corporate taxes they pay. These include tax subsidies for a variety of investments, where a lot of them focus on research and development (R&D). According to the US Department of Treasury, corporations used tax breaks and loopholes to lower the average federal corporate tax rate to 22% (US Department of Treasury, 2016). This number is only 3.65% higher than the average rate in Europe. This leads one to believe that the American corporate rate isn't as high as the mandated rate would make it seem.

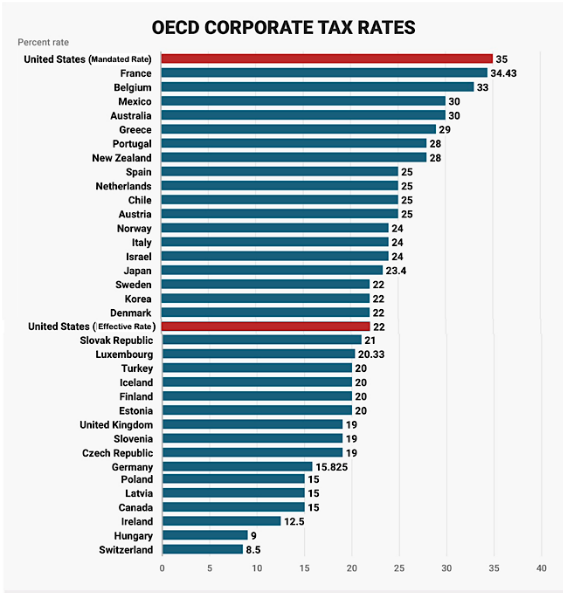


Figure 7: Country's Corporate Rates. Due to the "loopholes" in the US Tax Code, the effective corporate rate is 22%, nowhere near the mandated 35%. Source: OECD.

Now that we have a clear understanding of the differences between the two territories in terms of corporate tax rate, it's important to try and find out the implications on entrepreneurship. Based on a study done by the IZA World Labor, "A worldwide cross-sectional data set of 80 countries shows that high statutory and high effective corporate income tax rates reduce business density and entrepreneurship entry rates" (Block, 2016). This inverse relationship between entrepreneurship entry rate and effective tax rate is graphed in Figure #8. While the relationship exists, it is a minor one.

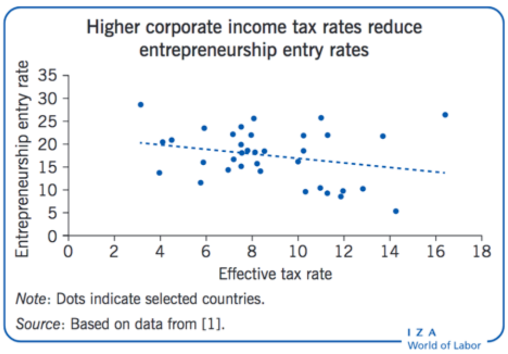


Figure 8: Higher Income Tax Rates has been proven to decrease rate of entrepreneurship entry rates. Source: IZA World Labor.

This minor relatioship was also seen from our interviewees, while most of our survey respondants and interviewees mentioned that paying less taxes would help them improve their business, they didn't specifically mention the corporate tax. An example comment is shown below:

> *"Of course. Paying less for taxes would help me grow my business. Any money I get to keep could potentially help me grow my company. However, I think that the effective tax we pay is relatively small to what I have seen in other countries. What becomes more important is that, for small businesses, employee benefits do not have to be provided. This helps keep overall employee's costs lower than in Europe."*
>
> *-Silvia G Buenrostro CEO and founder of Calexico Business Services*

It is important to note that there wasn't any interviewee that talked specifically about the corporate tax, but rather taxes as a whole. When prompted about this specific tax, none of the interviewees mentioned it as an obstacle. Most of the respondents would refer to benefits or social contributions as the most substantial costs which would slow down the growth of their business. We will dive into this further in the section below.

5.1.2.2 Cost of Social Contributions

Corporate tax is part of the taxes that a company pays, but most of the time this isn't the complete portion of the overall taxes paid by a company. In many countries, especially in Europe, social contributions used for the well-being of the country's citizens are gathered through taxes and make a substantial part of the overall amount. In the United States, these are divided into private and public "benefits". Private benefits are health benefits that the employer chooses to provide, whereas public benefits are those that the employer has no choice but to provide them.

Diving into how the European Union handles social benefits, one can see that all countries in the EU must provide universal healthcare through taxation (Wikipedia, 2018) but each country has the right to:

1. *Define what benefits citizens are entitled to, how much they'll receive and for how long.*
2. *Define for how long a citizen must work there before qualifying for unemployment benefits.*
3. *Define the rules for calculating benefits and the duration of the benefits.*

Due to this, costs vary widely across the EU as some countries provide a wider, longer social coverage as others. However, as a whole, the European territory requires employers to provide a much higher social security contribution than in the United States. Based on a study done by the EU Commission, "the ratio of taxes and compulsory actual social contributions to GDP in the EU-28 was 38.8 %. In general, the EU tax level is high compared to other advanced economies: nearly 13 percentage points of GDP above the level for the USA." (EU Commission, 2016). As shown on Figure #5 on the previous section, the majority of these contributions are commonly paid by the employer which raises the costs to bring in an employee. This high cost obviously has a negative repercussion on the potential growth of a business. This is something that is investigated in detail on Section 5.1.4.

The increase employee cost due to social contributions were commonly brought up as a potential roadblock to growing the employee count. During the discussions with entrepreneurs, all of them said that they would be able to grow their business faster if the social contributions and/or employee's benefit costs were to be lower. American entrepreneurs were a bit more complacent with the employer's contribution towards social security and other mandated costs. Contrastingly, European entrepreneurs commonly said it was too high. An example is presented below by a European entrepreneur:

> *"Any way I look at it, reducing taxes, which include social contributions, would definitely help my business grow faster. They are too high here in Austria for small businesses."*
> *- Fabian Kromer, CEO and founder of Kromit GmbH*

Even though all of the interviewees wanted to pay less taxes and social benefits in order to grow their business, none of them felt that it was a major deciding factor to consider prior to starting the company. For both, European and American entrepreneurs, the taxation policies and social contributions were irrelevant to whether they would start a company or not. However, all of them mentioned that having a lower rate of contribution would help them grow their business.

The results found by our interviews were also reflected in many of the studies done and corroborated by the surveys done. After "Access to Funding", a country's "Taxation Policies and Social Contributions" was the second factor which respondents thought was the biggest barrier of entry and business growth. Surprisingly, the magnitude of importance for the factors affecting the rate of entrepreneurship didn't change between the two regions. On approximately 20% of the surveys done, the entrepreneur or startup's employee responded the taxation policy as one of top two reasons why he/she believes the startup hasn't grown as fast as desired. This leads one to believe, that even though Americans have a lower contribution rate, they still feel it is a hindrance to their business.

Concluding, we can say that paying for all of these taxes and other mandated costs, leaves individual entrepreneurs with less capital to invest back into their enterprise which affects their ability to grow their business. However, specifically speaking, we can say that within the realm of taxation, corporate income tax only plays a minor role, but the costs of social benefits certainly plays a monumental role. The overall analysis we came up with is that, similar to raising funds to start a business (as outlined in Section 5.1.1), keeping their hard-earned funds is of vital importance to a small business.

5.1.3 Immigration

Another factor that has been found to have a direct relationship with entrepreneurship is whether an entrepreneur is an immigrant or not. In the US, immigrants are twice as likely to become entrepreneurs as native-born US citizens (Franke & Vandor. 2016). In the Silicon Valley, approximately 44% of the companies report that at least one of their key founders as an immigrant (Wadhwa, et al., 2012) and more than half of the United States' "unicorn" companies had at least one immigrant co-founder (Anderson, 2016). Around the globe, the pattern continues. As outlined on the GEM 2012 Global Report, the vast majority of the European countries reported higher entrepreneurial activity among immigrants than those native to the country (Xavier, et al., 2012).

Looking at the empirical data gathered from the survey done, the percentage of entrepreneurs who were either 1st or 2nd generation totaled 30% and 29% for Europe and the US, respectively. Even though this number isn't as high as the 44% in the Silicon Valley, it is still almost one in three. When asked about this to the interviewees, most of them mentioned that immigration definitely had something to do with the rate of entrepreneurship. Omar Ramos, a second-generation immigrant and serial entrepreneur, said the following:

> *"Immigration definitely matters. Living or even going to another country for an extended period of time does give you a different perspective on things. It gives you ideas…Immigrants just have this 'hustle'. They have this drive."*

Similarly, Silvia G Buenrostro, a Mexican-born immigrant entrepreneur agrees but also believes that there is more than what meets the eye.

> *"People like me – people who leave their country and leave a known environment are natural risk-takers. Meaning that if someone is hardworking, talented, driven and has a burning desire to succeed, they will find success. If their country isn't able to provide what they want, they will take risks and look for alternatives…and for a lot of Mexicans, that alternative is the 'American Dream'."*

These comments heard during our interviews align with the theoretical studies and literature. When probing our interviewees further, it was clear that immigrants had a more entrepreneurial spirit due to a number of reasons. First, by leaving a well-known, "comfortable" place, immigrants are proven risk-takers. As mentioned by our interviewee, picking up your belongings and moving to a foreign country with different customs and an unfamiliar language is one of the riskiest thing a person can do. So it's very easy to see that they are anything but risk adverse. Second, once a foreigner arrives to a new country, he or she may face a huge number of challenges when trying to integrate into the job market. His or her known skills may not be easily translatable, there may be a language barrier, different employment practices, and many other complications. This mismatch between what an immigrant can provide and what the job market asks may push the person to create his or her own path by starting a new business. Third, immigrants will also have many cross-cultural experiences as they have lived in multiple environments, which stimulates creativity and helps them identify "gaps" in their new environment. This helps immigrants combine various ideas, solutions and problems in order to create something innovative and new.

Combining the factors mentioned above make it incredibly easy to see why immigrants have a higher chance of being entrepreneurs. Immigrants have cross-cultural experiences that allow them to see the world differently and since commonly they are not well valued in the job market, they are incentivized to open a new business. Since they are commonly comfortable with risk, they are willing to take a chance and open a business. This leads to higher entrepreneurship rates for entrepreneurs. Contrastingly, this is the opposite of what native-born citizens do, as they're used to postponing change, or to avoid it altogether.

Now that we have investigated why immigrants are more entrepreneurial, it's important to address whether countries have the regulations and laws in place to allow these entrepreneurs into the country. In order for entrepreneurs to have the possibility of developing an idea and build wealth in a new country, there needs to be a legal framework that includes frictionless entry. When looking at both regions, the United States has historically had a culture that has been very welcoming to immigrants. Unfortunately, this has changed in recent years and it's becoming harder and harder for people to immigrate to the United States. An example of this is the lack of a visa commonly known as a "startup visa". This type of visa is a temporary conditional visa that is aimed to target entrepreneurs raising outside funding, which after some conditions are met could be converted to a residency visa. Unfortunately, the United States doesn't have this type of visa. The closest visa that the US has to a "startup visa" is the E-2 visa which requires conceiving a new business and bringing in a substantial amount of money into the country. The biggest downside of this visa is that it does not offer a path to green card or citizenship. This means that the entrepreneur will be permanently regarded as a non-resident alien for the amount of time spent in the United States. Once the company is dissolved or disappears, the entrepreneur will need to find another way to remain in the United States.

Contrastingly, most of Europe has a much more developed plan when it comes to this type of visa. Countries like the United Kingdom, Denmark, Sweden and Ireland all have permits very similar to a startup visa that allows an entrepreneur to come to a country with a business plan and a small capital investment to develop their business. Unlike the United States, this type of startup visa allows the entrepreneurs to become citizens of the country after a number of years as resident.

Concluding, one can see that there are similarities and differences between immigrants and native-born citizens which promote or discourage entrepreneurship. Backed by our research, we can validate that in both regions we find that immigrants do seem to live through certain experiences that make them more likely to start a business. However, there are some legal differences in terms of how entrepreneurs can come in to the country and for how long they can stay.

One thing that can unequivocally be said is that entrepreneurs have been proven to increase the wealth of a country and immigrants are more likely to be entrepreneurs. Therefore, it can be said that immigration should be looked at as an ally to increasing the country's wealth by increasing the overall entrepreneurial activity which has been proven to create jobs and increase the overall health of the region's economy.

5.1.4 Labor Laws and Employee Costs

Anytime someone starts a business, regardless of the location, it is vital to consider the costs and laws to abide by when running said business. For the majority of businesses, "Employee Costs" which include payroll, human expenses and employee benefits will surely be one of the highest expenses of starting and running a business. As employee costs are so deeply intertwined with laws that protect the employees, when starting a business, it's of vital importance to know the laws you need to abide by when it comes to administering your employees.

When analyzing both of the regions, one can easily see that European employment laws differ significantly from US employment laws. These differences naturally affect the rate at which one starts and grows a business in each of the regions. In most of the European countries, we find that there are many more laws that protect employees from their employers. One of the biggest conceptual and cultural differences is the unique US employment “at-will” doctrine—which does not exist in European employment law. This “at-will” doctrine states that in the US, an employee can be dismissed for no reason at all. Furthermore, if dismissed, the employer does not have any legal obligation to pay any compensatory pay.

Contrastingly, if an employer operating in Europe wants to terminate an employee, they must have a reason to do so and must follow specific legal procedures, which is time-consuming and expensive. After one goes through the legal procedures to dismiss an employee, he or she will encounter another important difference between the regions. In most European countries, there are laws that force employers to pay severance packages – which can be very expensive. These laws vary by country, but there are countries in Western Europe – like Spain – where employees may receive up to 20 days’ pay for every year of service. As expected from any young company, the future is uncertain, so flexibility is sought. Laws like the ones in Europe are unfavorable for startups as it makes it very hard and risky to scale up or down the number of employees. In Europe, entrepreneurs definitely need to think twice before starting and/or growing a company.

A second difference affecting entrepreneurship is the number of hours/days an employee can work. This is another noticeable difference between most of Europe and the United States. For example, in the United States the laws protecting employees from overworking (or “burning out”) are few and relaxed. In the US, employers are not legally required to pay a single paid vacation day or holiday. It is because of this that “the United States is the least generous when it comes to providing workers with social workplace benefits and paid time off” (Glassdoor Economic Research, 2016). The opposite is true in Europe where every country in the EU requires employers to give at least four workweeks (20 days) of paid vacation (European Commission, 2003). For example, France, one of the biggest economies in Western Europe, requires businesses to give 25 paid work days in addition to the 11 paid holidays. This results in a total of 36 days that need to be paid per year, per employee. Furthermore, there are also laws protecting how many hours an employee can work per week. In France, employees can work a base of 35-hours and forces employers to pay overtime rate if the employee works for longer than this amount. Also in France, there are laws protecting employees' private time by requiring companies to establish hours when staff should not send or answer emails. This is something that would be impossible to find in an early stage startup. An example of this determination and exhaustion was expressed by one of our interviewees who opened a company in the United States:

> *"When we started, we could have not cared less about holidays or working hours…we worked 18 hrs. a day. Our early employees would also work almost the same number of hours. "*
> *- Marco Palladino, CTO and co-founder of Kong Inc*

Obviously, as employees for American early-stage startups work more per week, they are able to accomplish more in the same period of time. When working at a startup, timing and speed is critical so laws like the ones in France can be expensive and can cost the company some growth.

As outlined above in Section 5.1.2, another very important factor to consider is the requirement for employers to provide employees with social benefits. Based on the research done by UHY, the international accounting and consultancy network in the UK, a European employer needs to pay approximately 23.82% of the employee's gross salary for social security and other employee benefits (UHY, 2013). Contrastingly, the United States had an average percentage of 8.24% allocated for employee benefits for someone earning the same gross salary (UHY, 2013). As outlined before, the enforcement of social contributions raises the cost of an employee which slows down the company's growth.

Concluding, if young firms are expected to survive and thrive after making mistakes, dealing with fluctuating demand and overall adversity – then they need to be able to reduce costs quickly and cheaply whenever it is necessary. As the employee cost is commonly the biggest expense, in order to improve the chance of success for the company, it's beneficial to have laws that facilitate this – like the ones in the United States.

5.1.5 Culture

As expected, some of the aspects that we've covered above deeply affect the culture of a community and region. So it is not surprising that the culture of a region is a major factor that affects the rate of entrepreneurship (Suddle et al., 2007). When exploring this relationship between culture and entrepreneurship, it is important to keep in mind the following questions:

- *What makes certain people want to drop their stable, governmental job and start their own enterprise when there's a huge risk it will fail?*
- *Why is it that some cultures and regions display a better entrepreneurial spirit compared to people in other cultures?*
- *What makes some entrepreneurs succeed while others fail?*
- *Why are people more likely to be entrepreneurs when compared to people in other cultures?*

Based on our research, this has a lot to do with culture; which in turn is a combination of laws, beliefs, norms, trials, etc. As culture is omnipresent, it affects entrepreneurship in many ways, some of which are not noticeable as long as one is in one location for a long time. However, once that person moves to another location or looks into how other people in different places behave, it is very noticeable. From our conversations with entrepreneurs, here are the cultural factors that we identified as being the most important ones:

5.1.5.1 Acceptance of "Failure"

One of the big defining differences we found when interviewing European entrepreneurs is that the culture's approach to failure is as different as night and day. In the United States, culture is incredibly tolerant to failure. The emphasis with regards to failure is always: Try again, try harder, and the only real loser is the entrepreneurs who remains down for the count. This leniency towards failure is exemplified by its overall policy but specifically, the policy of forgiving bankruptcy – which will be analyzed in detailed in the Bankruptcy Procedures section below. Additionally, one can also see that American entrepreneurs commonly use and live by the mantra of “Fail fast, fail often”. The main reason for this is because it is believed that the more mistakes made early on, the better the entrepreneur can learn and avoid these mistakes in the future. In the United States, it’s very common for failure to be “priced in” for investments that Venture Capitals do, while in Europe it can often be seen as a crippling issue.

In contrast, historically, entrepreneurial activity has been discouraged in Europe *specifically* due to the high likelihood of failure. Failure is commonly seen as disgraceful and shameful – hence, seeking employment with a well-established enterprise is worthy of far more respect. One of our European interviewees who wished to remain anonymous mentioned:

> *"I tried starting up three companies and all of them eventually failed. It was hard to recover from each of them, both financially and socially. Every single closing of my company meant that I would lose money, business associates and friends. It was very sad…Now I work for a well-established firm and I wouldn’t go back”*

As any entrepreneur would tell you, in order to succeed in business, one must be willing to fail. Failure is inevitable and necessary. Failure is the main component to gain any kind of experience, not just in entrepreneurship. As it has been proven, “age in itself does not matter in trying to forecast entrepreneurial success. But, *experience* does, and often times, that comes with age” (Deeb, 2015). By having a more accepting view for failure, a region can promote entrepreneurial success of its citizens.

5.1.5.2 Professional Egalitarianism

While talking to our interviewees and doing the surveys, it was noticeable that there was a repetition of regulations related to egalitarianism, the doctrine that all people are equal and deserve equal rights and opportunities. Egalitarianism is a doctrine that could be in conflict with entrepreneurialism and has been proven to negatively affect the entrepreneurial drive (Theis, 2013).

When looking at egalitarianism in both regions, we can see that both believe in equality but to different degrees. Strict egalitarian regulations seem to be more persistent in a

European society, especially in the western European countries. Based on a survey done by PEW Research Center, “nearly six-in-ten (58%) Americans believe it is more important for everyone to be free to pursue their life’s goals without interference from the state, while just 35% say it is more important for the state to play an active role in society so as to guarantee that nobody is in need”. Contrastingly, at least half of the people surveyed in Spain (67%), France (64%), Germany (62%) and Britain (55%) said the state should ensure that nobody is in need. Thanks to this doctrine, European countries have a homogeneous society where no obvious poverty or blatant opulence exists and where all people are socioeconomically similar with a much smaller wealth gap. In the United States, this isn’t the case. As shown in the figure below, since the 1980, the United States top 1% of the population went from owning around 10.5% of the national income to nearly doubling this amount. A lot of these members of the 1% are entrepreneurs and business owners. On the other hand, during the same period of time in Europe, the top 1% went from owning 10% to owning 12%, a measly 2% increase. We can also see a similar trend for the ownership of the bottom 50%. In the United States, their ownership dropped by 8% and in Europe only by 2%. This speaks volumes of EU’s policymakers and the work they’ve done to fight socio-economic inequality.

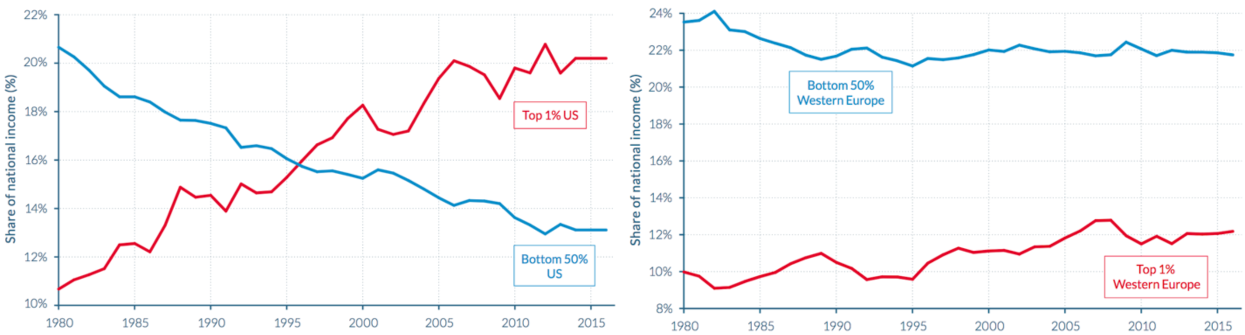


Figure 9: Top 1% vs Bottom 50% national income shares in the United States and Western Europe, 1980-2016. Source: WID (2017)

As mentioned above, while reducing wealth inequality has been proven to be beneficial for a society – for entrepreneurs, it is a deterrent. Entrepreneurs are not commonly only motivated by money, but it is definitely a reward that they seek (Shane et al, 2003). As mentioned above, in the recent decades the United States has set policies allowing the super-rich to keep getting richer. As it has been proven that 90% of the top 1% of the US are business owners, starting a business is one way to get to this upper echelon (Shane, 2011). In Europe, that cannot be said, as the share of national income has been kept roughly the same between the top 1% and the bottom 50%. This leads one to believe that the policies that the European Union has are set to have proportional taxes, where the government takes more from those who have more. Obviously, this means that entrepreneurs are less likely to open a business as the promise of incredible wealth just isn't in Europe whereas it is in the United States.

5.1.5.3 Confidence

Another difference that the author noticed between interviewees with companies in the US against those in Europe is the boastfulness or confidence levels. Even when the European companies had been incredibly successful in their environment, it is harder for entrepreneurs in Europe to be boastful and confident, even when it is deserved. In contrast, Americans are commonly known for having the "can-do" attitude and the belief that their products or services can conquer the world.

It is obvious that part of the reason why Americans seem to be more confident, is due to the amalgamation of some, if not all, the factors we have mentioned so far. These factors have made their economy more suitable for their business to succeed. However, European are not far behind and there are definitely many possibilities to start and grow your business in Europe. So, it is surprising that numerous surveys report the fact that Europeans lag far behind Asia and North America in the opinion of their own people on their economy. One of the most notorious reports is from Forbes Insights where they found that "Europeans sound the least confident about their countries' economies, with the largest percentage (36%) classifying them as poor… However, that overall negativity is contradicted, as Europeans look to Europe as the region that will create more wealth in the next decade than any other region except China. Thus, their darker sentiments may reflect a negative bias" (Forbes, 2015). Americans on the other hand, "feel much more positive about their country's and their region's economy, with 63% classifying it as very good" (Forbes, 2015). Another example of the European's lack of confidence on entrepreneurship and its economy's support for it came from a survey done by the European Commission, where it found that the "majority (58%) of EU respondents would prefer to work as an employee; 37% would rather be self-employed" (European Commission, 2012).

Aggregating the cultural factors presented above, it's not surprising to observe why Europeans have a mentality that is less likely to take risks and open up a new business. In order for someone to take the risk of opening a business, they need to be certain that a failure won't be catastrophic for them, that there's a substantial financial reward and finally, also have the drive and confidence on themselves (and their country's economy) to succeed. These cultural factors play a huge role in the creation and growth of new companies which were observed on both interviews and the surveys performed.

5.2 Minor factors affecting rate of entrepreneurship, based on surveys, interviews and literature

In addition to the factors that were brought up constantly and vigorously, there were other general factors that were also brought up on a minority of the surveys and interviews. These included: overall fragmentation of the region (regarding the EU) and governmental red tape and bankruptcy. All of these topics came up in at least one of the surveys or during the interviews done with entrepreneurs. Below, we'll go through them in more detail to show how they affect entrepreneurship.

5.2.1 Fragmentation of the European Market

The European Union (EU) is a political and economic union of 28 member states, each with their own set of customs, cultures, regulations, laws, languages and sometimes, even currency. Due to these differences, it shouldn't be surprising that for a business this complicates matters. Extending your market by expanding to a new country isn't as swift as entering just one country. So in order to completely enter the whole European market, entrepreneurs must fight a patchwork of legal codes even when doing something as simple as legally creating a company or filing for a patent. To make matters harder, in order to transact in a specific country, a lot of these processes need to be repeated as every single country which has their own set of laws and regulations. This is obviously something that turns out to be quite expensive and incredibly time-consuming. In order to mitigate this issue, the European Union has been trying to implement blanket laws to reduce the friction between countries in the union, but it is still very much a work in progress. Comparatively, the United States doesn't suffer from this issue as an entrepreneur would have access to a huge market and would only need to worry about dealing with roughly one set of regulations, laws, cultures and currency. This situation makes it many times easier for an entrepreneur in the United States to start and grow a business as there will be a huge market with similar shared values. The American entrepreneur would also be able to only have to deal with one government, rather than many. Obviously, if an American company wanted to transact abroad then it would run into similar issues. The difference is that saturating the American market would take a lot longer than with a European company saturating a European country.

During our interviews, we had two companies who had expanded abroad from the United States to Europe. Both companies struggled with the expansion and mentioned that when compared to the United States, Europe is a harder place to transact, specifically due to the fragmentation in the market.

> *"We recently expanded to Europe and Australia and it hasn't been easy. Due to the complexities of the EU, we haven't even started a legal entity there, we just have sub-contractors."*
> *- Thomas Lorimor, CTO and co-founder of Pathmatics Inc*

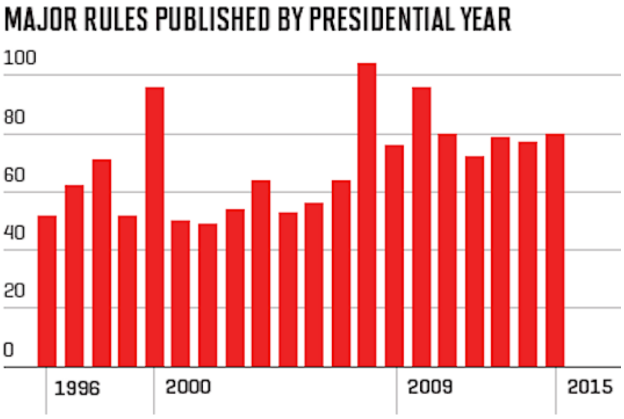
Even European companies that we interviewed also mentioned that expanding hasn't been a priority because of the complications that it entails to do business outside of their country.

A natural step for a business to take after capturing the low-hanging, local market is to expand outside of your local boundaries. After talking to both European and American founders, it seems that expanding is never easy. However, the necessity to expand will probably happen a lot later when you're in the US as it will be a much bigger market than any European country on its own. In the United States, there's a market of 300 million people, all speaking one language, with high spending power and roughly the same profile. In comparison, the highest populated market in the EU is Germany with 80 million citizens. This forces companies that look to capture as much market share as possible to expand earlier than those in America which poses a challenge to the growth of the company.

5.2.2 Governmental Red Tape

In every country around the globe, creating and running a company requires of a set of regulations and laws to confirm that business is done in a fair way and everyone has the same opportunity so succeed. However, when regulations become excessive and it hinders or prevents decision-making then this is known as "red tape". In the United States and Europe alike, this has become a common nuisance and slows down the growth of businesses. In Europe, one of the biggest culprit of running into excessive regulations is Germany. From rules dictating the employee's distance to office's windows, to nationwide bans on drilling at home on Sundays and piano tuning at night — laws and regulations have long dominated German's public, private and commercial life. Just in 2014, the German National Regulatory Control Council (NKR) did an analysis and reported that there was a $11.3 billion cost for German companies to comply to regulations introduced *that year alone* (Mihret, 2015). A survey published in 2015 by German Software company Sage, asked 400 German CEO's and 96% of them responded that "laws and regulations in Germany are excessive" (Mihret, 2015). For a new company, having to comply with the thousands of regulations makes it hard to get your business up and running without breaking any law.

While the United States still remains a friendlier market in regard to red tape, there are signs of slippage. In the recent report from the World Bank on regulatory efficiency, the US appeared at No.7, down from No.4 only five years ago (The World Bank Group, 2016). This is because there has been a steady increase in the number of major rules introduced in the US. These major regulations have caused a substantial increase in costs for American startups and big businesses alike (Gattuso & Katz, 2013). This in turn has highly negative repercussions which have been proven to impact new businesses the most (Gattuso & Katz, 2013).



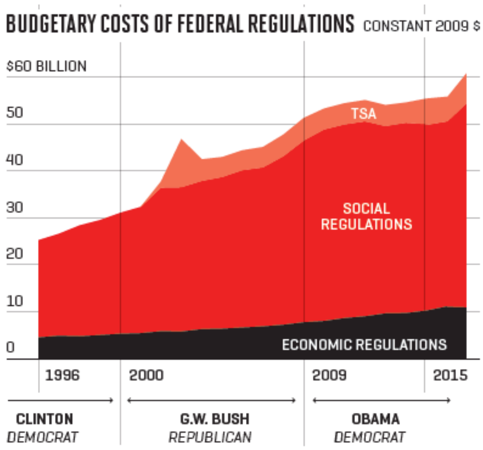


Figure 10: In the last decade there has been an increase in 'red tape' regulations and associated costs in the United States. Source: Regulatory Studies Center, Washington University

From our interviews and surveys, we were able to notice a pattern where our European entrepreneurs would more adamantly complain about red tape than those in the United States. An example of this was our entrepreneur, Fabian Kromer, who has a small business in Austria and is subject to substantial red tape:

> *"One of the laws that I struggle with is the requirement to have different bathroom for different genders. I literally cannot hire women because it would require an additional bathroom just for her. Unfortunately, my business is still small, and I cannot afford to have another bathroom for just one person"*
>
> *-Fabian Kromer, CEO and founder of Kromit, GmbH*

In large part, when talking to American entrepreneurs the sentiment regarding red tape was lighter. Even some of our interviewees mentioned that they were able to start a business from a garage in a private residence, something that wouldn't be possible in some countries in Europe due to certain regulations. In the United States, it is more common for companies to be allowed to operate before the local government figures out the right way to regulate them. A clear example is that of Uber, the peer-to-peer ridesharing company that started in San Francisco, CA, USA. The company started offering car-sharing services before any regulation was set in place. Nowadays, Uber is more regulated than before and, in some places, even banned. Although when the company started, the city of San Francisco let them operate without hitch until years after its founding. The same kind of behavior is happening now in cities all over the world with dock-less bikes and scooters, bikes or scooters that do not require to be returned to a kiosk or station; rather, the rider can leave it anywhere in the city. The next rider can then find the bike by using the cellphone's GPS. In many cities, officials lack regulation experience for this mode of transportation so you end up with some cities banning it and others allowing it. In some jurisdictions, authorities confiscate "rogue" dock-less bicycles that are improperly parked for potentially blocking pedestrian traffic on sidewalks and in other cases, new laws are introduced to regulate the shared bikes.

Another recent example brought up by multiple entrepreneurs about how governmental red tape is affecting their businesses was the introduction of the "General Data Protection Regulation", commonly known as GDPR. This regulation is the European Union's new legal framework which governs the collection and processing of users' personal data. Although this law was introduced and approved by the EU, it affects *anyone* who has European customers or handles business in Europe. From the founders that mentioned this, one seemed to be more affected by it:

> *"As we're in the business of collecting data, GDPR-compliance was a huge deal for us. It's not very easy to be compliant, especially for those of us who are running American companies but have European data...we're separated."*
>
> *-Tom Lorimore, CTO and co-founder of Pathmatics Inc*

After the GDPR law was enacted on May 25th, 2018 there was a huge number of websites that would simply stop accepting customers coming from a European country to avoid any legal issues.

Concluding, governmental red tape or excessive regulation has been proven to be costly in Europe (Mihret, 2015) as well as in the United States (Gattuso & Katz, 2013). Similar to any addition, unplanned cost, it is detrimental to the growth of a business so it's only natural that entrepreneurs try to avoid it. Unfortunately, most of the time this isn't not possible, and they're forced to choose between investing in their business or complying with the laws.

5.2.3 Bankruptcy Procedures

While all entrepreneurs wish that their startup succeeds, this isn't always the case. In actuality, the failure rate of a company within the first five years of operation is close to 50% (SBA, 2012). A lot of times this forces the entrepreneur to no other option but declare himself or herself financially bankrupt. This is never easy in any country of the world, but it is much harder if you live in a European country. In Europe, there are many legislations that make it hard for an entrepreneur to get a second chance. For example, in many European countries, creditors are not only able to obtain your present, but also your future wealth. This means that your failure could stay with you forever. As shown in Figure #11, a French entrepreneur who declares himself or herself bankrupt may need to spend up to 9 years (on average) trying to liquidate the bankrupts' debts. As mentioned by Dan Serfaty, the French founder of Viadeo, "If your firm goes under in France, you don't get a second chance". France is closely followed by Germany where it takes 6 years to finish the process. In Germany, employees who have been bankrupt "can [even] face a lifetime ban on senior executive positions at big companies." (The Economist, 2012). Furthermore, based on the journal "The Economist", "many [European] countries treat honest insolvent entrepreneurs more or less like fraudsters, though only a tiny fraction of bankruptcies involve fraud at all" (The Economist, 2012). In some European countries, declaring yourself bankrupt is a stigma that will follow you for many years, if not life. Second-chance entrepreneurs must fight this stigma associated with failure which makes raising funds, starting a new enterprise and sometimes, even open a new

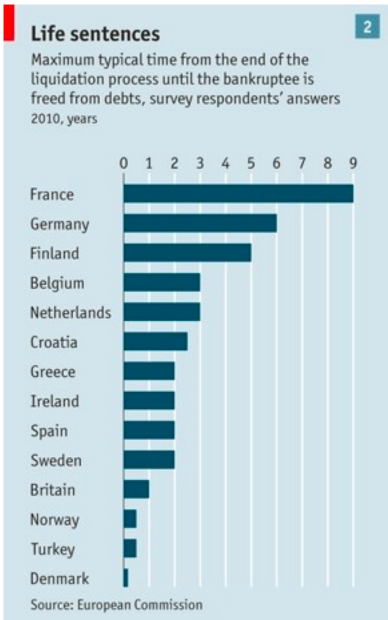


Figure 11: Time required until a bankruptee is freed from debts. Source: The Economist (2012)

bank account very difficult in Europe. The stigma is still so engrained in the European culture, that even after multiple requests to a couple of European entrepreneurs who had declared themselves bankrupt, they declined talking about the specifics regarding the topic.

In comparison, the United States has a completely different approach to bankruptcy. Failing in a business and declaring yourself as a bankrupt is not seen as a life sentence, but rather as a way of gaining wisdom. One may even say that in certain parts of America, like the Silicon Valley, bankruptcy and failure is "worn" as a badge of honor. "Fail fast, fail often" is often heard as being a mantra for many companies. The reason for this is due to the policies that allow people to recover from bankruptcy. In America, one can declare one's self bankrupt which will liquidate your assets at that time but won't allow your debtors to any of your future profits. Due to the fairly efficient and non-punitive corporate bankruptcy laws, the process to liquidate all of the bankrupt's debts can take less than 12 months (The Economist, 2012). This allows entrepreneurs to have a second chance at starting a successful business. After all, it's not unheard of for a founder to fail at a business before he or she is a great success. In actuality, based on research by Stanford Graduate School of Business Professor Kathryn Shaw, entrepreneurs are more likely to succeed the more times they had run businesses in the past (MacBride, 2014). Because of this, it is on the country's best interest to have laws that allow an entrepreneur to get back on his/her feet financially to be able to try again. A very insightful summary of bankruptcy came from one of our European interviewees who started a company in America:

> *"In America, bankruptcy is a process. In Europe, bankruptcy is a life-changing event."*
>
> *- Marco Palladino, CTO and co-founder of Kong Inc*

5.2.4 Other Factors

During our conversations with our interviewees, there were three factors that were mentioned but didn't directly fit any of the categories mentioned thus far. The first factor was the difference in legal fees between the two territories. In the majority of

Europe, lawyers cost much less and that's mainly due to them doing much less. In the United States, the legal environment that is plagued with frivolous litigation. It is way more common for engage in some kind of legal litigation. This, in turn means that even a young company commonly needs to have a lawyer on the payroll which increases the payroll cost. In Europe, there are a few legal snags while operating in Europe. While the rules are very tough, they are also very clear. The fact that young companies aren't forced to have a legal advisor on their payroll, decreases the costs of a company which in turn helps them grow.

A second factor we heard, is one related to one that we touched upon on section 5.1.2.2, this, factor is: healthcare. As mentioned before, Europeans have state-sponsored health care or plans that make health care for startups a non-issue. Which, as mentioned previously, means that employers need to pay for this. However, looking at the other side of the coin, one can see that this also carries a benefit when starting your own company. Entrepreneurs commonly start a company with only the founder(s) and making any profit or revenue takings a couple of months/years. With annual health insurance in the United States costing $10,345 per person in 2016 (Bloom, 2017), this amount would be impossible for someone to pay while starting a business. This means that people who are hoping to start a business sometimes run into a roadblock where they are forced to either be uninsured, pay this money from their own pocket or raise capital for their startup in order to pay themselves a salary that covers this insurance cost.

While talking with one of the interviewees, the lack of healthcare proved to be a real challenge when it came to start his own company. While his desire was to start his own company, he had a family and a job at a stable company. As this job provided health insurance as a benefit for him and his family, he was almost locked down to that company. It wasn't until his partner got a job which provided health care which allowed him to quit his job and pursue his entrepreneurial dream.

The third and last factor that was brought up to our attention was the requirement for many countries to require startup capital in order to open a business. In the start-up phase of a company, unexpectedly high costs can arise. In order to protect the people involved in this enterprise and the overall liquidity of the startup, some countries require the founder to provide a capital requirement for the government to keep in case of problems ahead. The amount for this capital ranges from country to country in Europe. There are countries like Germany that require 25,000 EUR to create a GmbH and countries like France or the UK where one can set up your limited company with a share capital of 1 EUR (Duhoit, 2017). In the US, there's no minimum requirement for capital required to start any limited liability corporation (Duhoit, 2017).

As we interviewed people from the DACH region and Italy, we encountered interviewees who mentioned this capital requirement as a substantial barrier of entry to open a company. However, we deemed this as a minor factor since it is not something that is encountered throughout most of Europe, but in certain, more protective countries.

6 Conclusion

In the recent decades, the US has been the leader in churning out global technology giants that were once startups. The likes of Google, Facebook, Amazon, Netflix are just a number American companies that have become household names in the recent decades. On the other side of the world, Europe, has also had its share of successes thanks to companies such as Skype, Spotify, Zalando and many others. This leads one to believe that regardless of the location of where one starts a company, there is still a substantial chance for it to be successful. Undoubtedly, there are certain factors in each territory that influence the chance for this success. This was the main premise that we set out to investigate through this master thesis.

Looking back at the main goals of this thesis, one can see that the topics that we were hoping to investigate are summarized as follows:

> *"Find out aspects that could potentially hinder potential entrepreneurs from engaging in a new venture creation or growth of an existing business in all of Europe."*

"Discover which factors have positively affected entrepreneurs when trying to create or grow a business in the United States"

By using empirical data from many literature sources, our own mass survey and interviews with hand-picked entrepreneurs; we were able to come up with a list of factors that seem to affect entrepreneurs the most. The list of them are summarized below:

Advantageous factors for starting a company in the United States	
Access to Venture Capital	*The United States has and will continue to be (at least in the near future) the main place where entrepreneurs can get large sums of money for their business. If one is looking to raise capital, the United States has a substantial lead over Europe.*
Taxes (including Social Contributions)	*Social contributions in Europe are included in taxes paid to the government. If one compares all of the required employer's cost for an employee, Europe's cost is much higher, mainly due to these social contributions required. In the United States, providing benefits is optional so taxes are much lower. This allows companies to have smaller startup costs which in turn help speed up the growth of a company.*
Lenient Labor Laws	*Labor Laws in Europe are definitely stricter and give a lot more rights to the employees, which are sometimes intrusive and get on the way of running a business. These laws sometimes are costly and could play into the realm of governmental "red tape". Lately, the US's laws have worsened in terms of red tape but still suffer less red tape than European ones. This provides a substantial benefit to entrepreneurs in America as employee costs are a lot lower.*
A more homogeneous market (compared to EU)	*The United States has a very important benefit of having a semi-homogenous, immense market of 300 million people. In Europe, that's not the case. This means that companies struggle massively when trying to expand to other European countries due to each country having different laws, cultures, languages, etc.*
Lenient Bankruptcy Laws	*The United States understands that there cannot be entrepreneurship without failure, which sometimes results in financial bankruptcy. Unlike most European countries, in the US, an individual who*

	declares him/herself bankrupt is discharged of all debt and creditors may no longer initiate or continue any legal action against the debtor to collect any discharged debt.
Start-Up Capital is very low to nil	*Businesses are expensive to start out as is, but in many countries in the EU there is a high minimum capital requirement to start a LLC (or similar). In the United States, there is no such minimum capital requirement which helps entrepreneurs start a company with ease and little capital.*
Culture	*One of the main differences between European and American entrepreneurs is culture. From the many aspects that make up a culture, we identified three of importance: acceptance of failure, professional egalitarianism and confidence. All three seem to slightly lean towards Americans pushing entrepreneurship through their culture, which promotes risk taking (even if it means failing) and massive wealth if one is successful, among others.*

Table 3: Summary of advantages to starting and growing a business in the United States

Advantageous factors for starting a company in Europe	
State-sponsored Health Insurance allows entrepreneurs to take more risks	*Often times there are people that would love to be an entrepreneur, but they cannot risk losing the health insurance provided by their employer. It is due to this that they remain "locked" to their employer rather than fulfilling their dream of entrepreneurship. By having state-sponsored health insurance in Europe, people aren't tied to their employer, so they are able to take a risk and start a company.*
Startup Visa / Immigration	*In Europe, immigrants from another country can open a new business that produces wealth to the country and after a number of years, become citizens of that country. This type of visa currently doesn't exist in the United States, as the closest visa, the "E2 Visa" does not give the entrepreneur path towards American citizenship. Naturally, having this type of "Startup Visa" allows potential entrepreneurs to look at Europe as a potential place where to start and grow a business…as well as a personal life.*
Low Legal Fees	*In Europe, it is less common to sue a person or a company which leads to requiring lawyers a lot less than in America. Due to this, hiring a lawyer in most*

	of Europe is cheaper and at times, optional for a young startup in Europe. This reduces the initial costs of a startup, which allows entrepreneurs to start a new business or grow their business faster.

Table 4: Summary of advantages to starting and growing a business in Europe

Factors that affect roughly similarly in both locations	
Corporate Income Tax	*While the United States has one of the highest* ***marginal*** *corporate income taxes in the world, thanks to loopholes and exemptions, the effective corporate tax is much lower. The values for both territories are very similar and didn't seem to have a big impact on the rate of entrepreneurship.*
Governmental "Red Tape"	*"Red Tape" or excessive regulation seemed to affect both territories. Interviewees from both territories seemed to mention some issues relating to red tape. While the intensity may be different, we didn't notice a difference.*

Table 5: Table summarizing factors that were found to be roughly the same in both territories

As outlined on the tables above, there are some benefits to starting a business in different territories. On this thesis, we looked at all of the factors encountered in literature all over the world and put them to the test by utilizing real world data from entrepreneurs and other subject matter experts.

In summary, one can say that, currently, it is more beneficial to start a business in the United States due to the factors outlined on this paper. However, it is important to note that the difference isn't as wide as it used to be. Europe is definitely enhancing their legislation so that starting a new business is more and more viable and has higher chances of survival. In the future, if Europe keeps following up action plans like the "Entrepreneurship 2020 Action Plan", we could see Europe catching up with the US, and perhaps even surpassing it.

6.1 Limitations

As it is common with any study, there needs to be an open conversation of the limitations of this study. As expected, this paper is no exception to the rule and has limitations. While the author did everything in his power to keep the study as valid and detailed as possible, it can be hard to discuss validity and reliability in relation to the limited qualitative and quantitative research. The qualitative research, especially interviews, are highly subjective to the person, culture, company's business sector, location, etc. which makes it incredibly hard to generalize when in different settings. The quantitative data gathered, is also subject to its limitations based on the sheer number of responses, which is small. In order to try and mitigate this limitation, the author has provided a background on the entrepreneurs interviewed (Section 4.1.1) in addition to the availability of the raw data for the surveys (upon request). This is done so that the reader can use this additional information to decide whether the results are applicable to him or her.

Appendix I – Survey Questionnaire and Results

Research Survey

Screening Question

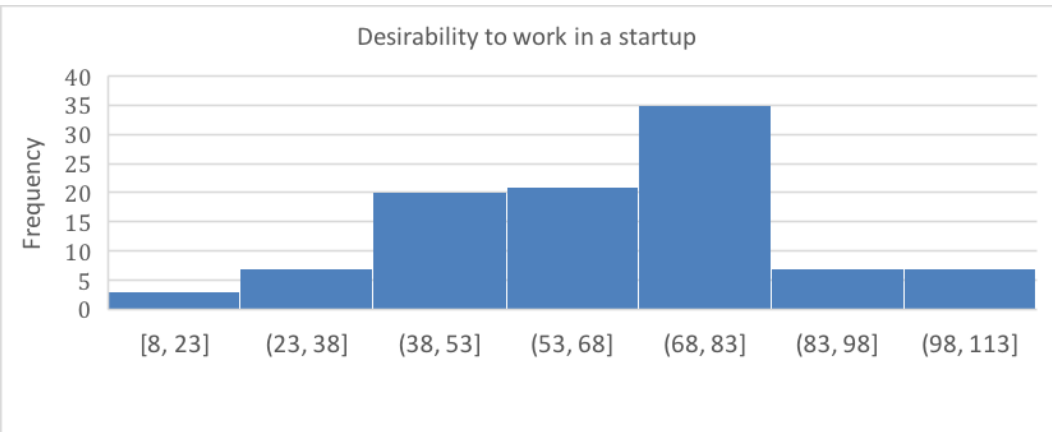
0. Have you founded or worked for a startup (small company under 100 employees) in the United States and/or Europe?	
Answer Choices	
A) Yes, I founded a company in Europe	25%
B) Yes, I founded a company in the United States	24%
C) Yes, I've worked as an employee for a startup in the United States	24%
D) Yes, I've worked as an employee for a startup in Europe	27%
E) No, I have not worked or founded a startup in Europe or the US	0%

Note: Any response except answer E would let the respondent continue with the survey. Therefore, any person that answered with "E" was automatically removed from survey results.

Survey

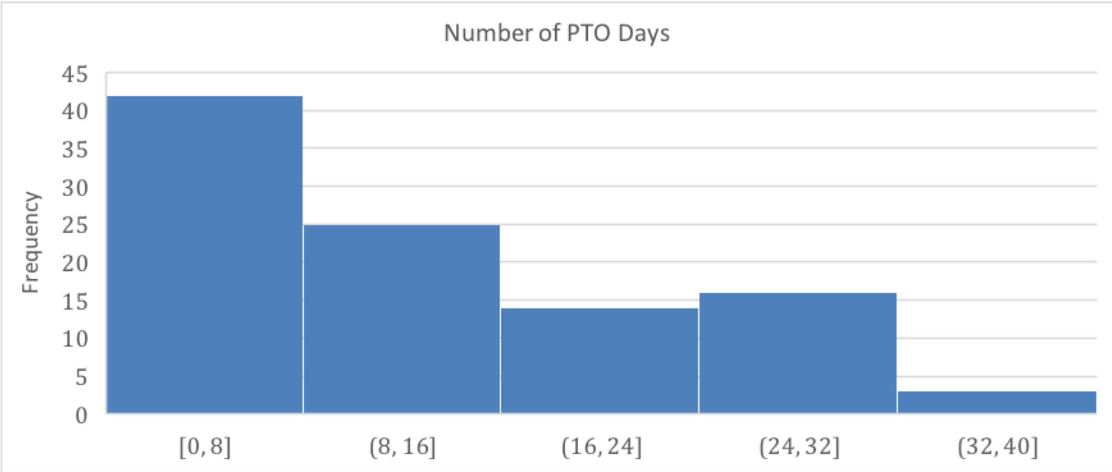
1. Which of the following applies to you?	
Answer Choices	
A) I have worked or currently work for a startup as a non-founder employee in either US or EU	65%
B) I have founded a startup in the United States or Europe	35%

2. Based on your experiences how desirable is it to be self-employed/working for a startup?
   (answer field was a range from 0 to 100)



Note: The histogram above has the last bin ending at the value of 113. This was done simply to keep all bins at a fixed size of 15. However, there were ***no*** *answers that were above 100.*

3. How many days do you get per year of Paid Time Off (PTO)? Do not include mandated holidays
   (answer field had to be a number between 0-50)



4. Are you and your parents both native to the country where your startup was located?	
Answer Choices	
A) Yes, both my parents and I are native to the country where the startup is located	71%
B) No, both my parents and I are immigrants to the country where the startup is located	19%
C) No, I am native to the country, but my parents were born in a different country	10%

5. Did your startup raise capital? If so, from Angel Investors (friends, family), Venture Capitals, Banks, etc.?	
Answer Choices	
A) No, I did not raise money from any source. All of the funds came from my pocket	45%
B) Yes, I raised a little bit of money, mainly from friends, family and/or business partners	42%
C) Yes, I raised money from venture capitals or some other professional investors	9%
D) Other – I do not know / I am unsure	4%

6. If your company has raised money, how much money (in total) has the company raised so far?	
Answer Choices	
A) Less than 100,000 USD/EUR	20%
B) Less than 500,000 USD/EUR but more than 100,001 USD/EUR	14%
C) Less than 1,000,000 USD/EUR but more than 500,001 USD/EUR	13%
D) Less than 2.5 million USD/EUR but more than 1 million USD	1%
E) More than 2.5 million USD/EUR	3%

7. When working for the startup, did you ever feel that there were a lot of excessive laws that applied to your startup?	
Answer Choices	
A) Yes, there were many laws that constantly interfered with us wanting to run our business	36%
B) Sometimes I felt that there were some laws that we could do without	50%
C) No, I never felt that there was excessive "red tape". Laws worked great!	14%

8. If you were a founder, did you feel that your startup was paying too much in taxes, social security, benefits, employee benefits, etc.?	
Answer Choices	
A) Yes, by paying less taxes, social security, benefits, etc. I would have been able to grow my business	64%
B) No, I felt that the tax rate was adequate. This rate wasn't a hindrance to my business growth	36%

9. Have you ever declared yourself (or your company or someone you know) bankrupt?	
Answer Choices	
F) No. Neither I or anyone I know have ever declared ourselves bankrupt	61%
G) Yes, and it was easy to recover. It took me less than 1 year to settle everything	21%
H) Yes, and it was somewhat hard to recover. It took less than 5 y ears to settle everything	14%
I) Yes, and it was hard to recover. It took more than 5 years to settle everything	4%

10. Europeans and Americans are culturally different. Order from biggest to smallest, which differences are more apparent between EU and US	
Answer Choices	*Mean Position*
Acceptance of Failure. US Entrepreneurs believe in "Fail Fast, Fail Often". In the EU, failing isn't as commonly accepted	2.5
Egalitarianism. EU constantly strives to minimize the wealth gap while in the US this is not the case.	2.3
Boastfulness. US citizens are known to be confident and boastful. In the EU, citizens seem to be a bit more reserved	2.6
Labor Laws. In the EU, employees have tremendous power and rights (min. PTO, severance package, working hours, etc.) whereas in the US, this isn't so much the case	2.6

11. How easy was it to extend your market outside of your country?	
Answer Choices	
A) Very Easy. It took less than 3 months	10%
B) Easy. It took less than 6 months but more than 3 months	34%
C) Hard. It took more than one year	31%
D) Very Hard. It took more than one year	11%
E) Other – Have not expanded / No need to expand	14%

12. Initially, in your startup, did your company focus on capturing market share or producing revenues/profits?	
Answer Choices	
A) Market Share. We wanted to make sure we were getting more customers regardless if we were profitable	44%
B) Revenues/Profit. We did not enter a market unless it was profitable	56%

13. Rank the factors you think affect the rate at which business get created (higher means more importance)	
Answer Choices	*Mean Position*
Political Factors and Bureaucracy	3.8
Taxation Policies and Social Contributions	3.4
Access to Funding	3.3
Cultural Factors	4.1
Immigration Policies	4.6
Labor Laws	4.2
Personal Factors (person will open a business regardless of location)	4.5

14. Do you see yourself opening a new business soon?	
Answer Choices	
A) No, I do not see myself opening a new business	46%
B) Yes, in less than 1 year from now	21%
C) Yes, in less than 2 years from now	22%
D) Yes, in less than 5 years from now	5%
E) Yes, but after 5 years from now	6%

15. Any other factor you feel that highly affects the rate at which the population in your country opens a business? *(answer field was open-ended)*
Answers Received
Costs for businesses such as NIC contributions. No longer encouraged to be employed so creating a need to start up alone to supply said company
Permits and other taxes
Laws and tax reforms
Overall state/health of the country
Love/Family Affairs/Responsibilities
Competition
Mental Fortitude
Crime Rate
Access to affordable commercial properties
Personal Risk financially. Self-employed can lose everything whereas limited company can mean directors are protected from financial risk.
Luck
Coming up with a new idea

In order to protect confidentiality, only averages are shown. Raw Data can be provided upon request.

Appendix II – Survey Demographics

Sample Size: 100 respondents

Gender

Gender	Number
Female	41
Male	59

Age Groups

Age	Number
18-24	6
25-34	33
35-44	37
45-54	17
>54	7

Country

Country	Number
Austria	10
Germany	10
UK	30
USA	50

Education

Level of Education	Number
High School or less	31
College or University	57
Post-Graduates	7
Did not disclose	5

Employment Status

Employment Status	Number
Student	3
Employed for wages	56
Self-Employed	12
Retired	9
Other (Homemaker, unemployed, military or undisclosed)	20

Appendix III – Interview Questions (Guideline)

1. **Introduction**
    - What is your name?
    - What is the name of your company?
    - Where are you and your company located?
    - What does your company do?
    - How many employees do you currently employ?
    - When was the company founded?
    - Anything else that you feel is relevant as an introduction?
2. **Bureaucracy**
    - How long did it take you to open your company (LLC, C-Corp, GmbH, etc.)? Was it complicated or easy? Did you encounter any issues that you remember? If so, what kind of issues?
    - Did you require a lot of capital to start the business? Was this money to invest on your business or money that had to go to the government or bank as a "security deposit"?
3. **Red Tape**
    - Do you currently struggle with red-tape (obsessive regulations)? If so, how do you deal with it?
    - Can you share with me which law(s) you find useless or at the very least, one(s) that are hurting your business' growth?
    - Do you have an estimate of how much complying with these regulations cost your business?
4. **Access to Funding**
    - When you were starting your business, did you need "substantial" funds to start your company? Why or why not?
    - Did you found the business using your own money, your friends/family or VC?
    - If you did raise money and you don't mind me asking, how much did you raise and how long did it take to raise this amount? How many rounds of funding did you do?
5. **Taxation and Social Contributions**
    - Do you feel that you pay too much in taxes?
    - Are you content with the percentage of your revenue you pay in taxes?
    - You're an American company, do you offer benefits such as health insurance, vision coverage, dental coverage, etc. to your employees? Why or why not?
6. **Culture**
    - Out of the factors below, which ones do you feel are the ones that differ the most between the United States and Europe?

        - Acceptance of Failure
        - Professional Egalitarianism
        - Confidence / Boastfulness
        - Labor Laws
    - Acceptance of Failure
        - How many Companies have you started? Did they succeed or fail?
        - If at least one failed, did you feel ashamed? Did you lose friends after this? How long did it take you to rebound?
    - Professional Egalitarianism
        - Do you feel like in your country everyone has the same chance to succeed?
        - Do you feel like there is a high level of income/wealth inequality?
        - Was accumulating wealth one of the reasons for you to start a company?
    - Labor Laws (see below)

7. **Talent Pool**
    - Do you find it's hard to recruit talent where your business is located? Why do you think that is?
    - From the time that you start looking for someone to fill a position, how long does it take?
8. **Labor Laws**
    - What labor laws do you feel are the strictest to abide by? Which ones are the most expensive ones to abide by?
    - If you were to hire/fire an employee what kind of severance/departure package would you provide to this employee?
9. **Immigration**
    - You're an immigrant living in a foreign country, do you think that this had something to do with you opening a business? Do you think that immigrants are more prone to open a business? If so, why do you think this is?
    - Did you ever try looking for a job where you live? If so, was it easy to get a job or no?
    - Do you think that living around two completely different cultures exposed you to certain people, things, technology or something else that triggered you to open a business?
10. **Fragmentation of the Market**
    - Are you currently doing business in other countries? If so, how easy was it to expand your business? How long did it take to open an office, hire your first "remote" employee/subcontractor?
    - Do you have an office or employees or sub-contractors somewhere else than where your company is headquartered?
    - Do you ever run into issues when trying to sell to a different country because of laws in that country that you were not aware of?
11. **Bankruptcy**

- Have you (or someone close to you) ever declared yourself bankrupt?
- Based on your experience here, do you feel that laws are set up to allow someone to recover from such an unfortunate event?
- Do you think that there is a 'stigma' here to those people that have declared themselves bankrupt?

12. Other

- Legal Fees
    - Do you have a lawyer as part of your staff? If so, when did you end up hiring a lawyer to work for you at least part-time (20+ hrs./week)?
    - Did you feel it was a substantial amount of your payroll costs?
- Lack of Healthcare
    - Did you start your business while working for another company? Did you feel "locked" to this company due to the benefits you received (if you received them)?
    - Did you have health insurance when you starting your business?
- Can you think of any other reason or factor that affects entrepreneurs to open a business and/or grow their business?

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