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NEW OCCASIONAL PAPER:

EU Policies on Online Entrepreneurship: Conversations with U.S. Venture Capitalists

[This paper](#) examines the role of policy for creating an attractive atmosphere for venture capital investments in online start-ups and entrepreneurship. It is based on in-depth interviews with venture capitalists in the United States.

The main takeaway points are:

The policy atmosphere is important for Internet start-ups and online entrepreneurs. It is also important for investors and is likely to play an even more important role as regulations with a direct impact on online business grow and expand their scope. There is a difference between investors in how important they consider policy to be for investments in online entrepreneurship – how the policy atmosphere relates to other factors that are critical to success (e.g. access to capital, labour, et cetera).

Most venture capitalists are critical of labour policy in Europe, and consider it to be one of the reasons why they are hesitant about investing money in European start-ups. The argument is that venture capitalists invest in companies with uncertain futures, and that the money they invest cannot be locked up in managing a work force that may not be the right one when a company need to change its course.

Regulations with a more direct impact on online business are generally considered to be difficult to navigate and manage in Europe. Market and policy fragmentation in Europe adds to that problem: in several regulatory areas, there are differences between countries in regulations or how they implement them. The overall consequence is that investment proposals from Europe may be rejected because investors have difficulties understanding the exact risks that come from regulations and changes in regulations.

The new EU proposal on data protection is considered to be particularly difficult to understand, and investors see obvious risks to investments emerging from that proposal. Most investors are not fully informed about all the details of the proposal, but one important point that is made is that there is something flawed with regulations that cannot be understood by people that are active in the fields that a regulation cover.

The copyright system is seen as arcane and unmanageable for many new Internet start-ups. There is an upside, say several investors, if Europe manages to reform its copyrights as a copyright reform in the U.S. seems unlikely.

Some investors are concerned about how new regulations encroach on the capacity to generate societal economic value in the online business sector, and there is a risk that investments will target regulatory “offshores”: companies/sectors that are subject to lighter regulation, but not necessarily sectors that could generate larger economic gains for society.

Venture capital investors argue that, to the extent policy matters, Europe could get an edge in the competition over investments if they offered a policy climate that is more hospitable to online entrepreneurship than in the United States. As policy and regulation increasingly define the scope for new innovations in this field, the way regulations are designed can have a significant influence in how investors think about the location of innovators and the destination of their investments.

[Download the paper here](#)

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