

CREATING SUSTAINABILITY FOR EU FUNDED START-UPS

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ОСИГУРЯВАНЕ НА УСТОЙЧИВОСТ ЗА СТАРТИРАЩИ ПРЕДПРИЯТИЯ, ФИНАНСИРАНИ ОТ ЕС

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Abstract: Creating sustainability is the biggest challenge for EU funded start-ups, as the current economic environment is highly dynamic, unstable, and characterised by many obvious, but also unpredictable risks. This paper provides a review of the current situation and related academic and business literature on the topic. It also explores recommendations on the importance of the sustainability concept and its practical implementation after initial funding from the European Union for start-ups.

Keywords: Sustainability, EU funding, start-ups, entrepreneurship, strategic vision, recommendations

Резюме: Осигуряването на устойчивост е най-голямото предизвикателство за стартиращи предприятия, финансирани от ЕС, тъй като икономическата среда е високо динамична, нестабилна и се характеризира както с явни, така и с много непредсказуеми рискове. Настоящата статия представя преглед на текущата ситуация и свързаната с нея академична и бизнес литература. Тя предлага и препоръки относно значението на концепцията за устойчиво развитие и нейното практическо имплементиране за стартиращи предприятия, получили първоначално финансиране от Европейския съюз.

Ключови думи: Устойчивост, европейско финансиране, стартиращи предприятия, предприемачество, стратегическа визия, препоръки

1. Introduction

In the recent decades the European Union has been facing considerable challenges regarding the competitiveness of its business environment. Regional economies have followed predominantly low cost business strategies that do not produce the required sustainability and long-term results. The series of crises (financial, debt, migrant) are a wake-up call for the EU, marking the need for altering its main concepts about economic growth and overcoming deep-rooted challenges as globalisation, pressure on resources, tough business environment.

Launched in March 2010, the EU ten-year strategy for smart, sustainable and inclusive growth puts the focus on a new concept, based on transformation of economy, innovation, competitiveness, and the most important of all – providing sustainability of results. One of the

basic strategic priorities is “facilitating direct business access to capital markets and exploring incentives for private sector funds that make financing available for start-up companies” (European Commission, 2010). A competitive advantage of the EU countries can be reinforced through development of highly innovative, technology-focused business ventures, which very often need initial financial support to implement ideas into reality, revealing their full potential and added value.

The EU puts an accent on the same concept in all of its following strategic frameworks. The Entrepreneurship 2020 Action Plan is entirely dedicated to creating sustainable entrepreneurial culture started in education, but linked to the real business needs, conditions, and specific environment (European Commission, 2013). These strategic points are converted into recommendations included in the Startup Manifesto for entrepreneurship and innovation to foster development, sustainable growth and competitiveness of the EU economy (Startup Europe Leaders' Club, 2013). The entrepreneurship approach becomes a backbone of the European policies in all areas, taking into account that sustainable and innovative start-ups are key for economic growth, innovation, job creation, and social integration in the region.

The 2030 Agenda for Sustainable Development, adopted by the international community, continues the previous priorities regarding entrepreneurship and start-ups as a significant factor for competitive economy and prosperity (United Nations, 2015). The Start-up and Scale-up Initiative, launched in November 2016, emphasises on the importance of start-ups and all the tangible positive effects they have on the European Single Market – fast growth, high reliance on innovation, new technological developments and extensive use of collaborative platforms (European Commission, 2016).

To increase its competitiveness and overcome the structural weaknesses of the regional markets, in other words to be successful, start-ups need to be mature enough to implement sustainable actions, strategies and business models. Creating sustainability is the biggest challenge for new businesses, as the current economic environment is high-dynamic, unstable, characterised by many obvious, but also unpredictable risks and challenges.

This paper aims to provide a review of the current situation and related academic and business literature on the topic, as well as to explore recommendations for start-ups, which are or will be funded by the European Union. As a pressing topic that is relevant not only in the short span from now until 2020, but evidently in the EU strategic framework, creating sustainability in start-ups is an aspect of entrepreneurship and also of the economic situation overall that needs even more attention.

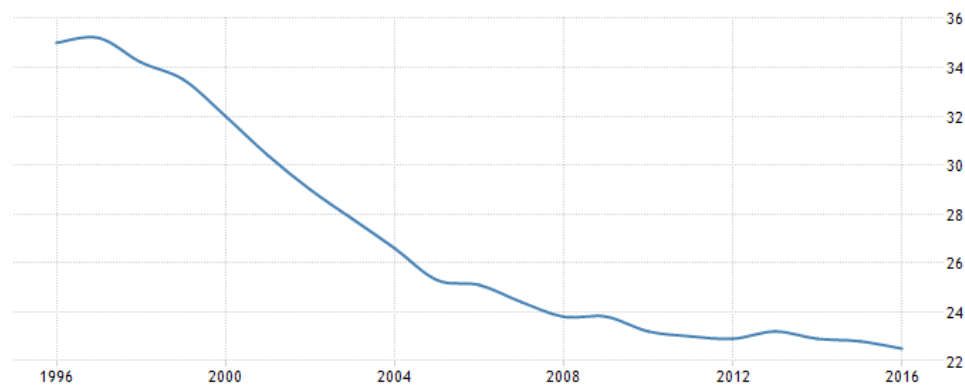
2. Context and economic environment

As mentioned in the introduction, in recent times the European Union has been struggling with different issues in the terms not only of the global economic crisis but, as Thomakos and Papailias (2014) name it – a problem of synchronisation between the member states, which is even evident in the different economic cycles in which each member state functions. However,

as the EU strategic vision points to, indeed, unity, many different actions have been taken on with the single goal of equal and real advancement.

Encouraging entrepreneurship in a meaningful and truly useful manner is a prevalent goal for the whole EU community. This is easily explained – as Summers (2015) clarifies, there is an almost universal agreement that growing entrepreneurial activity means a better economic situation in almost all ways imaginable. That is, of course, not completely true, as the author shows; however, the biggest problem with start-ups not bringing economic development at the rates at which it is expected is the high failure rate combined with significant growth problems.

Research shows that most start-ups end up with no additional employees because they cannot grow steadily (Summers, 2015). Moreover, a time-proven statistic is that 90% of start-ups fail (Griffith, 2015); going deeper into that number, it should be noticed that this is a process that unfolds in many years and is a product of many different factors. Even with all those seemingly discouraging facts, rates of enterprise creation are growing in most European countries (OECD, 2016). The main factors that are responsible for shifts in the rate of entrepreneurial action are: “total tax rate, the abilities of individuals and their attitudes towards entrepreneurship, cost and time needed to establish a new business, and access to sources of financing for firms” (Roman and Rusu, 2016)



Graph 1. Corporate tax in the European Union (data by the European Commission; source: TradingEconomics.com)

As the graph above shows, corporate taxes in the EU are at a significant low level, compared to the previous ten years. This fact, combined with a rising “start-up culture” that is nurtured by governments and private entities alike, and together with an increase of funding opportunities – in this context, specifically from the European Union, creates the exactly right conditions for creation of many new start-ups.

Most of those start-ups, funded by the EU, are successful in one manner or another – if nothing else, then because of the rigorous process through which ideas are chosen for financing.

In the following section, some of them will be examined with the goal of leading to discussion of why creating sustainability is important and, ultimately – how to achieve it.

3. Examples of sustainable EU funded start-ups

In accordance with the core values of the EU founders, all of its institutions have striven to disseminate funds prudently, meticulously and with a strategic vision for development of the region. Due to these reasons, many of the successful start-up ventures in the EU have managed to survive and thrive in the challenging business environment and even focalised their work endeavours on the ideas of sustainability, including social equality, fairness, integrity and transparency in their business practices.

One of the most remarkable cases of a start-up built on an egalitarian base with a purpose that goes well beyond profit maximisation is the agro-tourism women cooperative “To Kastri”, based in the island of Syros, Greece. The venture, a catering business which offers a variety of gastronomic services, was created in 2000 by 28 local housewives and proved its resilient nature by providing valuable services and decreasing unemployment in an economically unstable area (Luengo, 2011).

Another outstanding example of the effectiveness of EU funds for start-ups and young entrepreneurs is the success of “The Organic Supermarket”, a renowned company based in Ireland, operating since 2008. Having received access to funds allocated through intermediaries of the European Investment Fund, the owner Darren Grant has managed to develop his business ideas (Anon, 2010). The key to the superior performance of the firm is largely attributed to the advanced knowledge and expertise of the owner with regard to his target market and prevailing consumer preferences related to bio products and healthy lifestyles.

As a consequence of the company’s efforts, the brand has managed to establish itself as the largest organic retailer in Ireland, with three branches, more than 26 people employed and a highly successful online shop.

Financial instruments as microloans provided by the European Union, have proven indispensable for small start-ups and sole entrepreneurs who seek financing to establish small enterprises in various EU member states. Successful cases include a dance school in Barcelona, founded in 2007 thanks to a EU provided microcredit and a small chocolate boutique in Antwerp, supported by a EU guaranteed loan (European Commission, 2012).

Regardless of the business nature, industry and specificities, the EU funds have been an essential partner for start-ups and effectively aided many starting businesses in their thorny path to success. However, crucial for that success, and a factor with an ever-increasing importance is the sustainability clauses built into the start-ups’ initial business models and then applied in all implementation stages of development and expansion.

4. Impact of sustainability on the success of EU funded start-ups

As it was discussed earlier, the European Union has been funding start-ups with its programmes following a continuous and long-term strategic vision, which aims to boost economic activity and create a more resilient environment, less susceptible to economic and social shocks. However, funding start-ups is only useful when they pass the previously discussed thresholds and survive the high mortality rates of new enterprises – and even further, when they show an impressive competitive advantage and manage to maintain steady (or explosive, most optimistically) growth.

A 2015 study (Caliendo and Kunn, 2015) shows that programmes, which stimulate self-employment and entrepreneurship, produce more beneficial economic and societal results in the long run, especially for unemployed women. Moving these results in a broader context, research shows that the impact, generated from a boost in creation of new enterprises, is positive for whole cities, whether they are small, medium or large (Audretsch, Belitski and Desai, 2015).

With all the presented evidence, it is obvious why the EU is changing its requirements for funding, leaning more heavily on sustainability strategies. After all if the programmes they are financing are to produce lasting and tangible results, the financed enterprises should be resilient, competitive and ready for the market. The following part of the paper aims to help both the EU and prospective funded beneficiaries in their search for sustainability – mainly what are some good strategies to increase the chances of financed start-ups surviving and growing, and by extension – creating positive long-term results that are the ultimate goal of all such financing programmes.

5. Recommendations and implications

In order to generate success, expansion and recognition, contributing to the competitiveness of the European region, start-ups that receive financing under EU funded programmes need to develop a sustainability plan as a part of their initial business models.

Sustainability itself can be linked with implementation of start-ups initiatives in many ways, especially when they are financed as project proposals. Sustainability can be perceived as leading variables in the context of project management (Which variables should be managed toward sustainability during the project life cycle?), but also as a significant success indicator (What is the impact of the project on people, the planet, and money? What are the long-term outcomes from its implementation?) (Carvalho and Rabechini, 2011).

The project methodologies with the biggest success rate prove that the concept of sustainability in project management should be aligned and also considered its “relationship with the achievement of success in projects even better and to actually obtain a validated proposition that is applicable in the practice of projects and organisations” (Martens and Carvalho, 2016).

When developing a business model as project proposal, which is to be submitted under a EU programme or with the support of other European financial instruments, the sustainability is built into the whole project concept. But it should be also defined and guaranteed with concrete qualitative and quantitative indicators, which need to be accomplished in the implementation phase. The role of indicators is crucial for the project management and coordination, because “in

measuring performance, you are trying to gather information to help you make management decisions to affect change that, hopefully, will improve that performance” (Center for Business Practices, 2005).

For funding institutions qualitative and quantitative indicators are important in the context of achieved direct results and long-term impact. Reaching the preliminary defined indicators guarantees sustainability of the implemented activities. For start-up companies this is directly related to their development and successful performance in the market after the initial funding, when they have to rely on self-sustainability in order to survive and grow.

An effective and result-oriented approach is implementing the concept of sustainability from the very beginning of the business model development for EU funded start-ups, defining clear indicators and further monitoring of their performance not only during the funding period, but also as a good practice for self-sustainability.

On the other hand, funding institutions can provide some conditions, which will also contribute to implementing sustainability for start-up ventures, leading to increase of the EU competitiveness, economic stability and prosperity.

The main efforts should be put into promoting the EU funding opportunities in the private sector. In some European countries entrepreneurs still do not consider as an option starting a new business with such financial support simply because they do not have the necessary information. A key perspective in that case is searching for practical implementation of all European frameworks related to development of effective financial markets to support the start-up culture. These strategic priorities have been defined in the early 2008, when in its communication the European Commission recommended EU institutions and the single member countries to carry out measures to change the background conditions and promote a business-friendly environment, as well as the dissemination of best practices, including training (European Commission, 2008).

The new strategic plans address this core objective, but the funding institutions should require more tangible results from the applicant for financing organisations. A sustainability concept and also clear strategic vision of self-sustainability should be requested as a compulsory requirement when receiving EU support for starting a new business, because this is in close correlation to the success of the start-up itself.

6. Conclusion

This paper aimed to present and emphasise on the importance of the sustainability concept and its practical implementation after initial funding from the European Union for start-ups.

The literature review demonstrates that the current economic situation in the EU is hospitable for new businesses. Moreover, the literature shows that there are significant benefits from a growing number of competitive and innovative businesses, which is recognised by the EU as well-reflected in its priorities and actions. Successful cases are already underway, paving the way for building the correct environment, based on a start-up culture.

In order to secure sustainability in new proposed start-ups to be funded by the European Union, the authors recommend actions both for the prospective entrepreneurs and the EU

institutions, which will be investing in new businesses and entrepreneurship initiatives. For the entrepreneurs, sustainability will become more achievable if and when they recognise the importance of building a strategic vision, including specific and measurable actions to support the future growth and self-sustainability of the organisation. Moreover, the effects will be even greater when they include that strategic vision in details in their business models and make sure they follow through with their implementation continuously and carefully. As for the EU, recommendations are related to considering of innovative paths of action and further promotion of its funding opportunities, while also considering new types of financing – namely, later-stage support of start-up enterprises, as well as developing more effective financial markets to support the start-up culture in all regions of the European Union.

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