Joint ACCA-Barclays-ecoDa-SME united event

Scale-Ups: converting vision into strategy and governance

28 November 2018

REPORT

On 28 November 2018, ACCA, Barclays, ecoDa and organised an event on **Scale-Ups: converting vision into strategy and governance**, to discuss how policy-makers, investors and corporates can support high-growth companies in Europe. A particular focus was given on measures to address Europe's equity financing gap as well as need to remove regulatory and legal barriers from start up to scale up.

Welcome speeches were given by **Maggie McGhee**, Executive Director Governance, ACCA, and **MEP Neena Gill**, CBE (video message).

Salla Saastamoinen, Director for Civil and Commercial Justice, DJ JUST, European Commission, moderated the panel session welcoming **Armando Melone**, SME access to finance and COSME Financial instruments, DG GROW, European Commission; **Juliet Rogan**, Head of High Growth & Entrepreneurs, Barclays; **Inge Stoop**, Senior Project Coordinator, Guberna; **Marcello Bianchi**, EuropeanIssuers & Deputy Director General at Assonime; and **Luc Hendrickx**, Director of Enterprise Policy and International Affairs, SMEunited. **Jo Iwasaki**, head of corporate governance at ACCA, gave a presentation of the report on [How vision and strategy helps small businesses succeed: Governance needs of SMEs]().

Lucas Lenchant from the EIB Group and **Michel de Fabiani**, chairman ecoDa policy committee, gave concluding remarks.

Main highlights

Maggie McGhee, Executive Director Governance, ACCA

- Governance is a topic very close to ACCA's heart. ACCA has recently published a report exploring the purpose of good corporate governance: examining the interrelation between businesses and society, and the importance of leadership in facilitating a positive relationship between them.
- Professor Judge Mervyn King, internationally recognised expert on corporate governance, said on the occasion of the launch of the report: "*All businesses exist in the triple context of the economy, society and the environment. Good corporate governance is about considering the outcomes that a business model has on its surroundings, and the positive role that it can play in creating the long-term health of the company".* The successful growth of a business is not only good for that business. Success in scaling up businesses delivers many benefits for the wider economy, including the people who they employ as well as the community in which they operate.
- Corporate governance - and more precisely the role of leadership in steering a small company that wants to grow and in developing systems and processes necessary for robust growth - is an important factor enabling success. As part of creating such an enabling ecosystem, the European Commission is determined to help start-ups deliver their full innovation and job creation potential. The EU executive has already proposed a number of policies, such as the Capital Markets Union, the Single Market Strategy, and the Digital Single Market to benefit start-ups in Europe.
- 2 years ago, in November 2016, the European Commission issued its **Start-up and Scale-up Initiative,** pulling together all the possibilities that the EU already offers, with a new focus on venture capital investment, insolvency and second chance law and , importantly, taxation. Its stated aim was: *"to give Europe's many innovative entrepreneurs every opportunity to become world leading companies*". Interestingly, this consultation was fueled by a public consultation run by the Commission in 2016, which confirmed that, start-ups looking to scale up still faced - at the time of the consultation - too many regulatory and administrative barriers, especially in a cross-border situation. Information about national and EU rules was often dispersed and difficult to digest, which made identifying and complying with regulatory and administrative rules and formalities unduly time-consuming. In addition, understanding all the tax, company, labour law and other requirements was a real challenge, especially for a start-up with limited resources or expertise. Start-ups, in particular digital ones, also found it difficult to hire staff based in other EU countries - as tax and employment rules can substantially vary.
- Secondly, the consultation identified that for both start-ups and scale-ups, too few opportunities existed to find and engage with potential partners in finance, business and local authorities. And thirdly, respondents confirmed that accessing finance was one of the biggest barriers to scaling up.
- 2 years after, where are we now? Has scaling up a company across Europe become simpler? Are these companies really making the most of the Single Market's opportunities? Or, on the contrary, did we see the emergence of new challenges? We often hear that the still too fragmented Single Market is constraining start-ups and scale-ups in their growth potential. We have the single market rules but these are not applied uniformly in all member states. Regulatory and administrative barriers often disincentivise them from innovating, capitalising on their intangible assets, and scaling up, EU-wide. This can make it very hard for EU companies to compete with other markets such as the US and China. And this is inevitably leading some companies to choose to operate -and even relocate- in non-EU jurisdictions with more growth potential.
- All businesses start with ideas and visions. However, as they grow in size and complexity, the need to convert the vision into strategy and its execution, and monitoring through the governance mechanism becomes crucial. Most SMEs are aware of the benefits of good governance practice but, faced with limited time and resource, many still fail to put it in practice. And this could be costly to long-term success.
- ACCA recently unveiled a report called *How vision and strategy helps small businesses succeed*, which outlines the governance needs of SMEs, where simple but effective principles over vision,

strategy and human capital can provide them with greater flexibility, adaptability and resilience as they grow - a huge factor in the long-term sustainability of the business.

- There are a lot of daily concerns for the leaders of a small business, and often the biggest challenge is meeting day-to-day operations and cash management needs while thinking about the long-term future of the company. Growing companies also need to recruit employees with the right skills, in particular technical, financial and digital skills.
- Not too forget that it is often difficult for start-ups and scale-ups - and for SMEs in general- to secure and valorise intellectual property rights because of a lack of precise information and expertise on how to use IPRs strategically, both as investment and growth vehicles.
- Entrepreneurial mind-set, management and leadership skills for scaling up are crucial. And while many leaders are keenly aware of the importance of resilience in the rapidly changing business environment and of buy-in from stakeholders - such as funders and employees- there often may not be the time to think or do much about it.
- ACCA's research shows that if a business owner incorporates good practice for running her or his business from an early stage, the company is more likely to be resilient, and is more likely to appeal to external investment.
- Management, enabling ecosystems, finance, are crucial interconnected factors for companies seeking to scale up. But it is also vital to be specific about what scaling-up success looks like for entrepreneurs and their business and set realistic strategic objectives, timeframes and an efficient governance.

Neena Gill, CBE, MEP

- SMEs are the backbone of the economic fabric, not just in the EU. There are over 24 million of such enterprises and it is imperative that we enable them to thrive not just in Europe but also on the global markets.
- The issues of concern for SMEs are regulatory burden, the lack of opportunities to find and engage with potential partners in finance, business and local authorities, and access to finance. In the UK, companies also have the issue of Brexit and its implications.
- In order to address these concerns, a multitude of initiatives have been taken on the European level. The SME growth market is created with a directive that enables companies to get easier access to EU financial markets. This will further alleviate the regulatory burden by allowing SMEs to enter easily into the regulated market.
- In the banking package, an SME supporting factor was proposed in order to facilitate banks in providing more loans to the sector. The fact remains, however, that many start-ups are still refused financing by banks. To assist these start-ups, it is crucial that we have other initiatives, such as crowdfunding. The Venture Capital regulation has also been reformed. This all has improved access to finance.
- The European Fund for Strategic Investments (EFSI) has a special focus to invest to a greater degree in start-ups and scale-ups. These include loans, micro-finance and guarantees, equity funding through venture capital funds, business angels and social investors. Today some 700000 small companies have benefited from improved access to finance due to EFSI support.
- Despite all the initiatives and supporting measures adopted on EU and national level, more has to be done if we want to ensure our next generation is ahead of global competition and we have innovative start-ups that realise their true potential and become global leaders.
- Everybody needs to play a role, including the accountancy sector. The sector could set up specialised units and develop better understanding not only about the challenges of start-ups and scale-ups but also about possible new innovative sectors and how they can be integrated into local, regional and European markets. The accountancy sector could further boost entrepreneurship with special training schemes and perhaps also encourage a mind-set change that does not dismiss organisations that have failed once or twice.
- Many of the initiatives adopted by the European Parliament are far too often not implemented correctly in the member states. Accountancy sector could also here be the bridge that helps avoiding fragmented regulatory landscape across the borders.

- Another area where accountants could work on is taxation. Tax regimes should be made simpler and the tax burden on smaller companies should be alleviated by tackling tax evasion.
- Startups and scale-ups are successful when they have a really good ecosystem. It is important to provide the right level of support for start-ups and scale-ups in Europe.

Jo Iwasaki, head of Corporate Governance at ACCA, presented the report on How vision and strategy helps small businesses succeed: Governance needs of SMEs

- The amount of interest in the subject matter indicates the importance of the topic to the economy as a whole. Key interventions such as access to finance, but also non-financial infrastructure and affordable sources of external advice should be further explored for more robust SMEs. But in the end, what businesses prioritise and allocate time and resources will come from leadership.

Salla Saastamoinen, Director for Civil and Commercial Justice, DJ JUST, European Commission, moderated the panel discussion

- The European Commission presented a couple of years ago an Action Plan to support start-ups and scale-ups. The Commission tried to reduce obstacles, increase partnership opportunities and look for financing resources. The EC has been doing this for a couple of years.
- It is important to also explore other measures, for example helping small businesses with better corporate governance when they are trying to grow.

Armando Melone, SME access to finance and COSME Financial instruments, DG GROW, European Commission

- Within the Commission's Single Market Strategy, a Start-up/scale-up Initiative was designed to address the issues which European start-ups that are scaling up have in various fields, including on access to finance.
- Discussions took place on why many small companies in Europe are not able to grow and develop fast enough.
- Several gaps were identified, financing for start-ups is one of them. From the financing point of view, relatively less issues in financing opportunities lay in the start-up phase – there are funds that are providing the first round of financing. A bigger gap, however, appears when an established start-up wants to grow. There are some issues regarding the size of funds.
- One important part of the Start-up and scale-up initiative is aiming targeting the mentioned financing gap. The Commission announced a number of measures including a pan-European Venture Capital Fund of funds programme (VentureEU) that will be a major boost for start-ups scaling up. The EU will provide cornerstone investments of up to a maximum budget of €410 million in six independently managed Venture Capital Fund-of-Funds, which will trigger an estimated total of up to EUR 6.5 billion of new investment in start-ups and scale ups.
- It will help the Venture Capital funds reaching a greater size and attracting more private institutional investors such as pension funds, banks and insurance companies, which have traditionally been important sources of funds for venture capital investment.
- The first two vehicles were launched in April 2018 and more will come. These complement other instruments that have been put in place within the Multiannual Financial Framework. The European Fund for Strategic Investments (EFSI) is a successful financial instrument that complements instruments existing under COSME and Horizon 2020.
- The European Commission is planning more for the future. It is working on streamlining different financial instruments. The Commission has presented its proposal for a single, multi-policy investment support instrument, dubbed the InvestEU Fund.
- And there is more. Under the Capital Markets Union initiative, various actions are in place to improve the availability of alternative sources of finance to SMEs. There is a proposal to create a passport for crowdfunding platforms that could operate across Europe without needing to comply with different rules in each member states.

Juliet Rogan, Head of High Growth & Entrepreneurs, Barclays

- From financing perspective, in last 6-7 years Barclays noticed the changing nature of high-growth companies and high flows of venture capital supporting innovation, particularly through technological advancements. The life cycle of companies' growth has also fundamentally shifted.
- Barclays decided to explore and try to understand the challenges of growth companies across the board. It also decided to see what can be done from a lending perspective.
- There were so many businesses that Barclays wanted to work with but it was difficult to do from the credit risk perspective. Barclays looked at the experience in the US and the UK and decided to launch its own Venture Debt. Barclays has worked closely with the European Investment Bank on this.
- Venture Debt is a tool for leveraging capital, giving access to additional liquidity for working capital and extending runway between investment rounds. Most venture debt is raised at the same time as venture capital investment.
- Barclays has lent over £200m of Venture debt in the last 4 years. Venture debt has also allowed Barclays to better understand the nature and dynamics of growth companies. Barclays venture debt is supported by the InnovFin SME Guarantee Facility, with the financial backing of the European Union under Horizon 2020 Financial Instruments.
- The five key challenges for scale-up businesses are access to funding, accessing talent to sustain growth, building leadership capacity as the company grows, infrastructure that facilitates growth and accessing markets to grow revenue streams.
- When it comes to strategy, companies tend to speak to their accountants about it. Banks are not really able to provide that strategic level of advice because they look after many companies. However, banks can provide a holistic view of funding nature and who is available in the market for them at different stages of their growth. Banks are the ones to go for the knowledge of networks rather than specific advice.
- Barclays has done a lot of work on Intellectual Property. It had to make sure that the characteristics of the companies Barclays lends to are indicative of IP-rich businesses.
- Europe is still much more risk-averse compared to many other markets, especially the US.

Inge Stoop, Senior Project Coordinator, GUVERNA

- There are different definitions of SMEs throughout the global world. GUBERNA is in search for a tailor-made governance approach for SME's. GUBERNA is convinced of the importance of SMEs for the worlds' economies.
- For years the discussion about corporate governance was concerning listed companies. All over the world, a lot of academic studies, think thanks, commissions, external hearings, are studying and reviewing the corporate governance codes for listed companies. The corporate governance regarding SMEs was always completely snowed under in this debate.
- We all agree that the SMEs are the engine of the economy and create many jobs. We also agree that there are much more SMEs than listed companies all over the world.
- A good example is the Code developed by ecoDa a few years ago. Essential in this code is the phased approach of the governance model in function of the growth phase of the SME – proportional - one size does not fit all.
- To assume that SME's are simply A5 copy of larger A4 organisations or multinationals A3 is misleading and inaccurate, and therefore, new theoretical but on the other hand also field studies and academic studies are required.
- GUBERNA is currently successfully assembling SME managers and entrepreneurs to reflect on specific SME governance related themes.
- There is no growth within an SME without proper governance. A starting and growing entrepreneur deals with insecurities and doubts on a daily basis, and installing a board of advice or even a board of directors is not the first thing on anyone's mind. The entrepreneur is involved and occupied with the day to day business world of his/her own organisation.
- A step by step implementation of corporate governance in the SME and anticipation of growth and the future of the organisation will not make corporate governance as 'a tight straitjacket'. Recognising that each step in the organisational growth has his 'danger zone', the maturity of the

entrepreneur, not only the EQ and IQ, but own adaptive intelligence, AQ, will limit or speed the implementation and chance of success.
- The terminology of governance is perhaps pompous regarding SMEs. But the building blocks within the corporate governance may be universal and also adaptable in starting and growing SMEs. Conflict of interests between a shareholder and chairman and CEO is the main issue and professional decision making is key to all stakeholders of the organisation, including staff. Checks and balances need to be imbedded in a SME and transparency is a main driver of corporate governance.
- Openness to external parties, in particular the board of advisors and directors, is an important issue. SME entrepreneurs sometimes claim that they do not need a board of directors. The reason for that is that company would still be "too small" or is not "too specific" for this; lack of time is also mentioned amongst SMEs. Another reason is that SMEs do not want to relinquish control and lose the decision-making power. SMEs often don't see the added value of 'external' people.
- The Swiss Army pocket knife is known for its multifunctional use. It consists of at least 8 tools. We should ask SME entrepreneurs: do you want to be well prepared in your daily business life for situations where you sometimes need tools? A Swiss pocket knife offers a solution. In business, a board of directors is like a Swiss pocket knife: reliable, high quality and always offers a solution. The tools of the pocket knife symbolise the different competencies needed to take the business strategy to a higher level. Some of these tools will be used often, others only occasionally, but they are all essential.
- The most important benefit for an SME is that an active board of directors with external members is not just 'your toolbox'. It also creates added value within your company. A well-constituted and well-functioning board of directors gives targeted knowledge, network and extra experience.
- Installation of an active board with at least 2 external administrators within an SME would at least be a guarantee towards the financial investor, whether it will be a private equity fund, a financial institution or financial incentives from governmental offices, like Horizon 2020, or EIT or the new InvestEU.

Marcello Bianchi, EuropeanIssuers & Assonime
- The main problems SMEs and growth companies face to scale-up is the access to capital markets.
- To become an issuer in Europe is costly in terms of administrative burdens, as well as time spent. This can discourage companies and financial actors to start the process. The European Commission has put this issue at the heart of its strategy and the Capital Markets Union project is the right framework to find solutions.
- The CMU can be effective and only fully integrated European capital markets can provide the instruments to support growth. Unfortunately, the CMU project implementation and proposals have so far not been able to meet the expectations, neither in the ambition of some specific reform, nor in overcoming current fragmentation of European Capital Markets, which requires not only harmonisation of tools but also harmonised supervisory and approval practices with a much stronger role of central authority – ESMA.
- The limited ambition of reforms for facilitating access to public capital markets by SMEs is also due to a cultural problem in the approach adopted by the European Commission. The EC proposal for a "proportionate regulatory environment to support SMEs' listing" is based on the need to "alleviate administrative burden on listed SMEs, while keeping investors protection and market integrity unharmed". *Unharmed* means maintaining the same level of investor protection and market integrity of large companies and use the same regulatory tools. This interpretation creates an intrinsic contradiction because material alleviation of burden cannot maintain the same level of investor protection and market integrity at least if we use the same regulatory tools.
- Within the EU conceptual framework for SMEs, the only possible options are: to reduce administrative burdens which are not relevant for investor protection and market integrity (but this should be done for all companies and not only for SMEs: e.g redundant prospectus); to introduce

"pretending" simplification, which actually maintain the same burdens (e.g. recent proposal in MAR).
- A policy really aimed at favouring access to capital market of SMEs and growth companies should accept that the standards of investor protection on those companies cannot be the same than on larger companies. The costs of regulation are higher for small companies and the benefits for investors are lower when they affect SMEs.
- The key issues for a new more ambitious approach are: identification of simplification measures which have the most effective balance in terms of costs (less investor protection)-benefits (less administrative burdens); how to make investor aware of different level of protection connected to different categories of companies (differentiating rules by trading venue, by company's size, combination of both).

Luc Hendrickx, Director of Enterprise Policy and International Affairs, SME united
- Scale-ups and start-ups have a lot of issues but we don't need a separate policy for them. What we need is a general SME policy which is at the moment missing at the European level.
- Corporate governance for SMEs can be a way of converting vision into strategy. We have to determine what the definition of growth is. Every company needs to grow but companies can grow in different aspects and policy makers focus too much on increasing the number of employees. The aim of a company is not to create employment but to run the business in a responsible way.
- We have to promote corporate governance among SMEs more. SMEs don't always understand corporate governance because they don't see themselves as a corporate. The corporate governance message needs to be presented in a very understandable way.
- We should promote corporate governance in SMEs more because it has a lot of advantages. SMEs often have difficulties to attract new employees and corporate governance can help the SME to promote the company and give other stakeholders, especially banks, a good impression.
- Corporate governance has to be adapted to the specificities of the SME. The solutions that corporate governance is offering should always be very practical, it should help SMEs become more efficient. External Advisory Council could facilitate that and this tool already works well in some member states. SMEs don't have necessary knowledge on many topics and are afraid to ask for external advice. The External Advisory Council could help in this case. It could help SMEs hire experts to give advice.
- There is also a role for public authorities to play to promote corporate governance in SMEs not by legislation but by raising awareness on corporate governance advantages.
- With regards to sustainability, SMEs can become transparent in many other ways besides reporting. They can have real communication with their employees and other stakeholders. It is important to take into account that possibilities of SMEs are limited and it is essential to look at every company individually in order to see what it can do in terms of sustainability.
- There is a lot of information at the EU level on IPR but it is fragmented. The European Commission has worked on bringing all the initiatives together. The new initiative addresses IP mediation which is of relevance to SMEs.

Lucas Lenchant, EIB Group
- As regards finance, it is very important to ensure not just any, but the right access to finance. Scale-ups need to be able to access and keep the talent in order to sustain growth.
- Building leadership capacity as the company grows is important, as well as to providing the right support for start-ups and scale-ups in this process. There can't be any growth without the right infrastructure. Start-ups and scale-ups need to have proper facilities, such as working spaces.
- There is also a clear need to have the right ecosystem, including legislation.
- The main challenge above all remains the access to capital markets. More venture capital is needed for European entrepreneurs at all levels. The situation has improved but the EU is still lagging behind. This is especially important if we want start-ups and scale-ups to remain in the EU.

- The EIB Group works closely with the European Commission. It has been working in order to put in place Pan-European Fund-of-Funds. It has also been developing additional financial instruments. The EFSI is also very important because it has brought awareness amongst the EU entrepreneur sector about making a real difference.
- The European Growth Finance Facility is a financial instrument that is geared towards supporting scale-ups.
- Discussions are ongoing between the European Commission and the EIB Group on future projects and development of further financial instruments. If we want to create change, it is important to have the appropriate cultural setting, enabling ecosystems and entrepreneurial mind-set. Innovation is not a result of luck – it is about combining all the right elements together.

Michel de Fabiani, chairman ecoDa policy committee, gave concluding remarks.

- We should never forget that a large company is nothing else but an aggregation of very small companies.
- Scale-ups need to embed adequate corporate governance requirements to be more attractive and to overcome the financial obstacles to growth. In order to move to the next level, they have to be surrounded by professional board members that can convert the entrepreneurs' vision into strategy and tailored-made governance frameworks through efficient processes, that allow attracting investors, grow the activity and deliver success. This applies to large and small companies in the same way.
- Regulation is needed but it must be principle-based, not detailed. Reporting needs to be limited but significant. One-page report that tells the truth is much more valuable than 400 pages.