Startup & Scaleup Strategy

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At a glance

Startup & Scaleup Strategy

Bitkom rating

In February 2025, the European Commission launched the Call for Evidence for its Startup and Scaleup Strategy, which aims to strengthen Europe's innovation ecosystem by creating better conditions for high-growth companies through harmonization, de-bureaucratization, and digitalization. Bitkom strongly supports the European Commission's intention to finally address the obstacles holding back young, innovative companies in the EU. Startups and scaleups are facing severe disadvantages compared to their US or Chinese competitors, such as access to finance, regulatory and bureaucratic burdens and fragmentation, access to markets, access to talent, and access to infrastructure, knowledge, and services. The following actions should be taken by the EU and its Member States to overcome these barriers.

Key Takeaways

- **Channelling Capital: Startups & Scaleups Need a Fully Integrated Capital Markets Union**

  Europe's institutional investors are sitting on trillions of euros, yet they are barely investing in technology startups and VC. Over the past decade, venture capital investment in the EU has averaged only 0.3 % of GDP, which is less than a third of the figure in the US.[1] A well-designed, preferential tax treatment for equity investment in startups, especially in key sectors, could drive more capital into high-growth companies.

- **Introduce a 28th Regime: One Uniform Legal Framework for Scaling**

  Instead of dealing with 27 national legal systems, innovative companies should operate under a single framework of corporate, insolvency, and labor law, as well as taxation. We cannot emphasize enough how important this initiative is for startups and scaleups. A 28th Regime must provide a default legal structure and enable fast, digital registration valid across all Member States for seamless cross-border expansion without needing multiple legal entities.

- **Address the Talent Gap: Easier Hiring, Mobility & Startup Visas**

  Beyond retraining and reskilling its own workforce, Europe must rethink its approach to international mobility. A fast-track EU-wide tech visa would allow companies to recruit top talent globally. Tax incentives to attract talent would further boost Europe's ability to compete for the best minds. The EU should make it easier for international students to stay. Reforms for remote working and stock option tax reforms should be a priority on the agenda.

$218

bn of European institutional investors' investment is allocated to VC, compared to $1.1 tn in the US (atomico, 2023).

[1] https://www.imf.org/-/media/Files/Publications/WP/2024/English/wpiea2024146-print-pdf.ashx

1 Effective Startup and Scaleup Policy

Committing to Innovation

For too long, Europe's most innovative startups and scaleups have struggled to get the political attention they deserve. However, given the increasing fragility of the international order, scaling up European technology champions must become a strategic priority to secure European sovereignty and future competitiveness. In our view, the following priorities should be included in the strategy to deliver the promised support to European startups and scaleups.

A Uniform Definition – The EU Startup FlexiFrame: Whether you aim to create a harmonized legal structure for startups or specific financial incentives, you first need to define who qualifies and who does not. A single definition reduces bureaucracy and provides clarity for entrepreneurs, investors, and policymakers. However, it also carries the risk of setting the boundaries too tightly, unintentionally excluding promising ventures. Therefore, instead of a single, rigid definition, we suggest that eligibility should follow the EU Startup FlexiFrame, a dynamic 'meet X of Y characteristics' approach. Beyond certain criteria that must always be met to qualify as a startup (e.g., independence from large corporations), companies should qualify if they meet a majority of additional key characteristics—such as the number of employees, or growth potential. Rather than adhering to an inflexible model, this EU Startup FlexiFrame ensures that essential requirements are upheld while allowing flexibility for innovation. To make this more concrete, a working group should define both qualitative and quantitative indicators and develop a dynamic framework that ensures clarity and flexibility at the same time, making it easier for startups to access funding, grants, and procurement.

A Genuine Single Market: Neither tariffs nor the deteriorating relations with trade partners pose the biggest threats to Europe, but the internal barriers the EU has imposed on itself. Excessive bureaucracy and fragmented regulations stifle innovation and competitiveness. Germany’s most successful founders make this clear in our Unicorn Report: Less bureaucracy and greater harmonization of the EU single market are the two top priorities for them.[2] The IMF estimates that internal barriers amount to the equivalent of a tariff of 45 % for manufacturing and 110 % for service, far more

[2] https://www.bitkom.org/sites/main/files/2025-01/getstarted-unicorn-report.pdf

damaging than any trade measures imposed from abroad.[3] To fully unlock the potential of the Single Market, we must eliminate unnecessary bureaucracy and create a regulatory environment that enables businesses to scale seamlessly across borders. Regulatory simplification must go hand in hand with better enforcement. Before introducing new legislation, ensuring the uniform application of existing digital regulations across all Member States should be a priority. The disparities in enforcing GDPR, for example, have resulted in fragmentation, slowing innovation and distorting competition, reducing profits for small European tech firms by an estimated 12 % (ibid.). This challenge extends to digital laws, where divergent reporting obligations (such as those under NIS2, CRA, GDPR, and the CER Directive) create additional burdens. The EU should prioritize regulations over directives where possible to ensure uniform implementation across member states, reducing complexity and increasing market efficiency.

A Fully Integrated CMU: Over the past decade, venture capital investment in the EU has averaged only 0.3 % of GDP, which is less than a third of that figure in the US.[4] The lack of long-term capital is particularly brutal for deep tech startups that are crucial to Europe's future competitiveness. These research-intensive innovations need patient investors willing to commit significant capital to the future. Additionally, exit options are weak, IPOs are costly and complex, and strategic acquisitions are rare. If we want to stop European unicorns from fleeing abroad, we need to fix the money problem. Europe's pension funds are sitting on trillions of euros, yet they are barely investing in technology startups. There is no shortage of capital, but it's not flowing into venture funding. A well-designed, preferential tax treatment for equity investment in startups, especially in key sectors, could drive more capital into high-growth companies. This could be achieved through targeted tax incentives or a reassessment of regulatory frameworks such as Solvency II and Basel IV. A stronger focus on capital-funded pension schemes, with an option to include diversified VC investments, could also channel more long-term capital into European entrepreneurship. Developing secondary markets for startups and venture capital would further enhance liquidity, while EU-wide capital gains tax exemptions for investments in early-stage R&D commercialization, deeptech, and research-driven startups could accelerate innovation. Additionally, establishing uniform reporting and compliance standards would help reduce bureaucracy, ensuring that regulatory complexity does not stifle growth.[5]

A 28th Regime: Instead of dealing with 27 national legal systems, innovative companies should operate under a single framework of corporate, insolvency, and labor law, as well as taxation. We cannot emphasize enough how important this initiative is for startups. The EU must strongly encourage this, but the Member States also have a responsibility to clear the way for this reform. A 28th Regime must provide a default legal structure and enable fast, digital registration valid across all Member States for seamless cross-border expansion without needing multiple legal entities. This is about efficiency, clarity, and making Europe the easiest place in the world to build and scale a business. Labor law considerations for the 28th Regime should be grounded in the principles of the Danish flexicurity model. The approach balances

[3] https://www.imf.org/-/media/Files/Publications/REO/EUR/2024/October/English/text.ashx
[4] https://www.imf.org/-/media/Files/Publications/WP/2024/English/wpiea2024146-print-pdf.ashx
[5] For further information on a fully integrated CMU, see our position on the Savings and Investment Union

flexibility for employers with security for employees, ensuring a dynamic labor market while upholding worker protections. A key component of this model is the ability to hire and dismiss employees with minimal legal friction, particularly for high-income earners. At the same time, robust social safety nets - such as unemployment benefits and state-supported reskilling programs - provide a cushion for workers in transition, encouraging career mobility and economic adaptability.

Fair Access to Public Procurement: Public procurement in Europe is stacked against startups. Excessive administrative requirements often disqualify them before their proposals are even considered. If the EU wants real innovation in public services, procurement rules need to change. A centralized digital pre-qualification system would allow startups to upload their certifications and qualifications once, rather than submitting the same paperwork for every tender. Priority should also be given to allow procuring via online marketplace to simplify, standardize, and ensure fair procurement processes across borders. Moreover, bureaucracy would be reduced, and European cooperation would be fostered if national public procurement authorities could procure in cooperation with other Member States' public authorities. This would benefit economies of scale and support SMEs and startups. In-house procurement by government agencies should be limited to ensure that contracts remain open to competition. Faster evaluation of bids, advance payments and simplified compliance procedures would reduce the financial and administrative burden. In addition, Europe needs to start using procurement strategically to strengthen its own innovation ecosystem. Large public contracts in key industries should be structured to encourage the participation of European startups. Rather than shutting out innovation, procurement should drive it.

Accelerate Research Transfer: Europe is a powerful research force, but too many breakthrough ideas never make it to market. While publicly funded institutions produce world-class research, there are too few incentives and mechanisms to transfer these discoveries into commercially viable businesses. The EU needs to rethink how it rewards research institutions. Too much funding is tied to academic publications rather than market impact. Researchers should be incentivized to commercialize their discoveries, not just publish them. Expanding research transfer means aligning funding mechanisms, strengthening industry partnerships, and simplifying commercialization pathways. By creating stronger links between research labs, venture capital, and industry, the EU can ensure that its brightest ideas don't just sit in journals or labs. They create economic value. The European Innovation Council should become a DARPA-inspired agency, prioritizing breakthrough technologies, accelerating tech transfer, funding high-risk innovations, and leveraging public-private partnerships for scaling in key sectors. Beyond that, a European IP Marketplace should be established to make technology licensing and cross-border commercialization easier. Moreover, the establishment of regulatory sandboxes should be a priority for the Commission. Controlled environments allow startups to test their technologies without the full burden of compliance. Such sandboxes must come with access to high-performance computing capacity. The most important future industries rely on massive computational power. The EU should ensure that startups have streamlined access to world-class supercomputing resources.

Address the Talent Gap: Beyond retraining and reskilling its own workforce, Europe must rethink its approach to international mobility. A fast-track EU-wide tech visa would allow companies to recruit top talent globally with a single, streamlined application process. Tax incentives to attract talent would further boost Europe's ability to compete for the best minds. Thousands of international students graduate from Europe's top universities each year. The EU should make it easier for them to stay, ensuring a steady pipeline of skilled workers for emerging industries. Labor laws urgently need reform to support cross-border hiring and fully unlock Europe's talent potential. Reforms for remote work and stock option taxation should be a priority. While startups often lack the resources to offer competitive salaries to top talent, Employee Stock Ownership Plans (ESOPs) can be a highly valuable alternative. In Germany, half of all startups grant equity to their employees, with most opting for virtual shares.[6] The primary motivations behind this are talent retention, motivation, and additional compensation. However, for startups without ESOPs, administrative complexity is a key barrier, cited by one-third of them. The biggest challenge is the lack of harmonized taxation for stock options across Europe—each country has its own approach. Additionally, issuing stock options becomes even more complicated when employees are based in foreign subsidiaries. The tokenization of shares presents significant opportunities in this context.

[6] https://www.bitkom.org/sites/main/files/2024-09/bitkom-startup-report-2024.pdf

Bitkom represents more than 2,200 companies from the digital economy. They generate an annual turnover of 200 billion euros in Germany and employ more than 2 million people. Among the members are 1,000 small and medium-sized businesses, over 500 start-ups and almost all global players. These companies provide services in software, IT, telecommunications or the internet, produce hardware and consumer electronics, work in digital media, create content, operate platforms or are in other ways affiliated with the digital economy. 82 percent of the members' headquarters are in Germany, 8 percent in the rest of the EU and 7 percent in the US. 3 percent are from other regions of the world. Bitkom promotes and drives the digital transformation of the German economy and advocates for citizens to participate in and benefit from digitalisation. At the heart of Bitkom's concerns are ensuring a strong European digital policy and a fully integrated digital single market, as well as making Germany a key driver of digital change in Europe and the world.

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