

BENCHMARKING THE ADMINISTRATION OF BUSINESS START-UPS

EXECUTIVE SUMMARY

1. OBJECTIVES

The project 'Benchmarking the Administration of Business Start-ups' was undertaken for the European Commission by the Centre for Strategy and Evaluation Services (CSES).

The objectives of the study were, in summary, to:

- Help Member States of the European Union to establish 'headline' benchmarks (that relate to the registration of a new business entity) and 'operational' benchmarks (that measure the effectiveness of undertaking the principal activities associated with the registration of a new business entity).
- Assist Member States to make improvements in the registration process by identifying performance drivers (the 'enablers' of performance that determine the efficiency of the administrative process).
- Identify examples of best practice in the Member States.

The project built on other work undertaken in this area, particularly the Commission Recommendation on Improving and Simplifying the Business Environment for Business Start-ups and the study undertaken by Logotech¹ in 1997. It was conducted under the 'Best' Procedure operated by the Enterprise Directorate General of the European Commission, with the active participation of a group of experts, nominated by the Member States, based on their knowledge and experience in this area.

Experts from the business community supported the project.

2. BACKGROUND

Promotion of entrepreneurship, reduction of administrative burdens, and the use of benchmarking feature prominently in EU policy. Thus the Lisbon European Council, as part of the new open method of co-ordination, called for a formal programme to benchmark the time and costs involved in setting up an enterprise.

The European Charter for Small Enterprises, endorsed at the Feira European Council in June 2000, is central to achieving the Lisbon objective of making Europe the world's most competitive and dynamic economy by 2010. The Charter requires that: 'the costs of companies' start-up should evolve towards the most competitive in the world. Countries with the longest delays and most burdensome procedures for approving new companies should be encouraged to catch up with the fastest. Online access for registration should be increased'.

¹ Logotech European Innovation Monitoring System Publication no 58, 'International Comparison of the Formal Requirements and Administrative Procedures required for the formation of SMEs of any Legal Status in the EU and other major countries' (1997)

3. BENCHMARKING METHODOLOGY

The project was undertaken in two phases:

- Phase One: The issues that influence the process for the administration of business start-ups were identified, and provisional benchmarks at headline and operational level were established.
- Phase Two: A benchmarking exercise was undertaken with experts nominated by the 15 Member States. The aim of this phase was to generate a common understanding of the essential elements in the process of business formation; to agree benchmarks; and, to provide an impetus to change and improvement, through the exchange of concrete experience of the different Member States.

Data and information was collected in the following key areas:

- *Headline Benchmarks*: The outcomes of the business registration process, especially the time, cost and capital needed to complete mandatory procedures.
- *Operational Benchmarks*: Measures of the administrative process, such as the number of procedures, documents and forms, which are the proximate causes of the outcomes.
- *Performance Drivers*: Indicators of the underlying causes of the outcomes, such as Information and Communications Technology (ICT) and Management Processes.
- *Qualifications, Licenses and Permits*: The sector-specific qualifications and qualifying standards; the activity-specific licenses; and the employment-related licenses that an entrepreneur must obtain whilst setting up an enterprise.
- *Discretionary ('non-mandatory') Activities*: The other non-mandatory activities that a prudent entrepreneur undertakes whilst setting up an enterprise, such as developing a business plan and obtaining finance.
- *Best Practice Cases*: Examples of best practices by Member States in a wide range of areas.

To ensure that there was a high degree of cross-country comparability in the benchmarking process the project focused on four core types of new business entity: Individual Enterprises; General Partnerships; Private Limited Companies; and Public Limited Companies.

'Typical' and 'minimum' data were collected for each of the headline and operational benchmarks, based on the establishment of a straightforward business entity through the most widely used process of registration, in each Member State.

Ten archetypes were developed to provide cross-country comparisons of national requirements for sectoral and other activity-related licences.

A set of EU-wide benchmarks was produced, based on the performance of the Member States. The performance of the fourth most efficient country (the "lower quartile") was chosen as the benchmark because it is a realistic medium-term target for all Member States.

4 KEY FINDINGS

The tables below summarise the key findings for the Individual Enterprise and Private Limited Company: the two most important types of business entity in the relevant policy context.

HEADLINE BENCHMARKS

Individual Enterprise	Average	Highest	Lowest	Benchmark
Typical Time (Elapsed business days)	12	35	1	3
Minimum Time (Elapsed business days)	3	7	1	1
Typical Cost (Euro)	250	1,572	0	0
Minimum Cost (Euro)	90	750	0	0

Private Limited Company	Average	Highest	Lowest	Benchmark
Typical Time (Elapsed business days)	24	35	7	18
Minimum Time (Elapsed business days)	7	15	2	3
Typical Cost (Euro)	830	2,232	0	213
Minimum Cost (Euro)	680	1,700	0	213
Minimum Paid-up Share Capital (Euro)	9,200	23,477	1	3,000

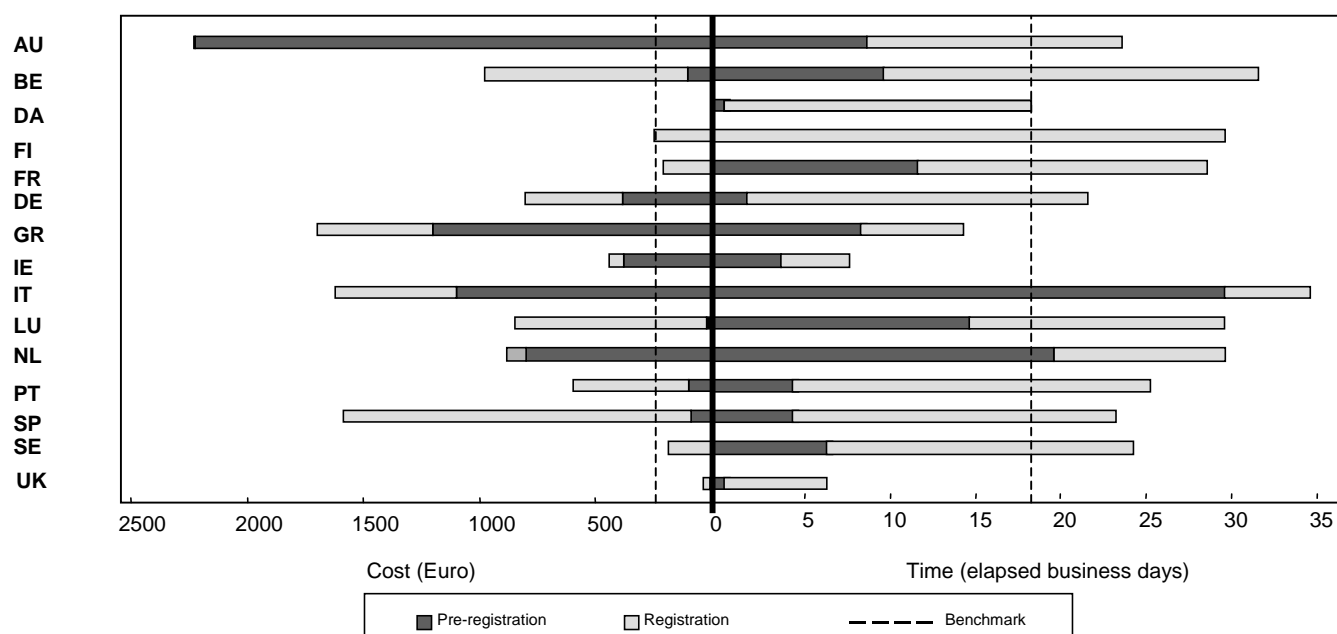
OPERATIONAL BENCHMARKS

Individual Enterprise	Average	Highest	Lowest	Benchmark
Number of procedures	8	15	1	4
Number of Contact Points – for entrepreneur	4	7	1	2
Number of Official Forms and Documents	4	13	1	1
Number of Official Licences, Approvals, and Confirmations	2	7	0	1
Number of Public and Private Bodies Involved	4	7	1	3

Private Limited Company	Average	Highest	Lowest	Benchmark
Number of procedures	16	26	8	9
Number of Contact Points – for the entrepreneur	5	10	2	3
Number of Official Forms and Documents	9	20	3	5
Number of Official Licences, Approvals, and Confirmations	4	9	0	1
Number of Public and Private Bodies Involved	6	13	2	4

An illustration of the differences between countries is shown below:

The Typical Time and Cost of Setting Up a Private Limited Company



PERFORMANCE DRIVERS

The main factors generating change in the start-up environment – the ‘performance drivers’ – were identified. These included the application of ICT and the use of modern management techniques.

Extensive use is made of internal planning and control tools such as formal plans to reduce time, performance measurement, and ‘feedback’ of results. In contrast, there is less use of tools designed to promote external transparency and accountability or to link rewards and performance.

The greatest use of ICT is in areas of the registration process that are easiest to computerise, such as lists of business names. Less progress has been made in utilising the potential of ICT to facilitate the restructuring of the registration process or to allow entrepreneurs to register new businesses electronically.

5. PRINCIPAL CONCLUSIONS

Considerable progress has been made in improving the process of administering business start-ups. In particular, many Member States have:

- Improved the administrative efficiency of current procedures by introducing “Single Access Points” and statutory response times.
- Switched from a system based on authorisation to a system based on self-certification; reduced the number of licences or approvals; and reduced the number of procedures.

- Enhanced the involvement of users through the use of the Internet to provide information, and publicity campaigns.
- Reduced the scale and complexity of the documents required to establish new businesses.
- Reduced the level of mandatory costs.

However there is scope for further improvement in the process of administering business start-ups, in a number of areas. There is also scope for optimising the overall process for registering a new business entity – including the completion of the ‘discretionary’ activities (such as preparing a business plan and obtaining finance) and obtaining other licenses and permits.

THE INDIVIDUAL ENTERPRISE

C.1. The ‘discretionary’ activities (developing a business plan and obtaining finance) have the greatest effect on the total elapsed time to set-up a new Individual Enterprise.

C.2. There are no major time barriers to the registration of an Individual Enterprise in any Member State; but it takes three Member States more than 20 elapsed days to complete the process while four countries can complete it in less than five days.

The principal explanations for these differences are variations in the detailed administrative procedures in each part of the process (including the use of ICT) and the complexity of the overall process (the number of contact points, the volume of paperwork and the number of different organisations involved).

C.3. The ‘qualifications, permits and licensing’ activities that are mandatory have a significant effect on the total elapsed time of the start-up process for an Individual Enterprise, in those Member States that are least efficient.

C.4. There are no major cost barriers to the registration of an Individual Enterprise, but it costs more than Euro 750 to register a new business entity in three countries (when the average cost excluding these countries is less than Euro 50).

THE PRIVATE LIMITED COMPANY

C.5. The ‘discretionary’ activities (developing a business plan and obtaining finance) have a significant effect on the total elapsed time to set-up a new Private Limited Company.

C.6. The time taken for the pre-registration and the registration processes and their complexity may act as a barrier to the formation of a Private Limited Company in some Member States – particularly where the time taken is more than one and a half calendar months (30 working days). This compares with a time of 15 working days or less in three Member States.

C.7. There is a link between the number of procedures and elapsed time, in the case of the creation of a new Private Limited Company.

C.8. There is a link between the origin of the commercial code and the number of procedures needed to set up a new enterprise in a country. Countries whose code is influenced by customary (common) law tend to require fewer procedures than those whose codes are based on civil law.

C.9. The ‘qualifications, permits and licensing’ activities have a significant effect on the total elapsed time of the start-up process, in those Member States that are least efficient.

C.10. Cost may be an additional barrier to the formation of new Private Limited Companies in some countries. Registration costs more than Euro 1,500 in four countries – while there are no registration costs in one country.

C.11. Two principal factors account for most of the differences in mandatory costs between Member States: fees paid to lawyers or notaries because of their mandatory involvement, and taxes and fees charged by national governments for registration.

C.12. There is a link between the time and cost needed to register a business and the extent to which Member States use business registration as a mechanism for managing the perceived risks to investors, creditors, and customers from entrepreneurship. In some Member States, a complex network of ‘ex ante’ controls has been established to enable the state to ‘select’ entrepreneurs and to limit their freedom of action.

There is, therefore, a direct conflict between the Lisbon Summit’s political objective of creating an entrepreneurial Europe and existing public policy practices designed to control the process of entrepreneurship.

C.13. The high level of paid-up capital required in some countries is an important barrier to the formation of new Private Limited Companies. It represents more than 50% of average annual earnings in six countries (compared with a minimum requirement of only Euro 1 in two countries). This is a significant sum. It inhibits the use of incorporated entities by start-ups and hence prevents entrepreneurs from limiting risk and attracting external equity capital.

C.14. The combination of lengthy and complex procedures and significant cost and capital requirements acts as the greatest barrier to the formation of new Private Limited Companies in a number of countries.

PERFORMANCE DRIVERS

C.15. There is scope to improve the way in which the process of registration is managed in many Member States, by improving the use of modern planning and control techniques. In particular, more registration organisations could make use of tools to establish public accountability for achieving targets and for involving stakeholders. There may also be a case for increasing the links between organisational results and managerial rewards.

C.16. Modern Information and Communication Technologies (ICTs) offer organisations a way of improving efficiency and effectiveness of the administrative processes associated with business start-ups. But the major barrier to progress is that electronic signatures for business registration are not yet accepted in most EU countries.

C.17. The Introduction of ICT also offers organisations an occasion to review existing paper-based administrative processes.