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# Startups Made In Italy: Understanding Failure Trends


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## Introduction

Today startups represent the primary source of innovation in any global economic system. The driving force behind the establishment of such organizations is a highly forward-looking project that can render outdated the previously used product, service, or production methodology to meet the demand of a specific market segment. The innovative component is indeed the core characteristic of every startup, regardless of the market in which the business idea emerges.

It is evident that any productive system, in order to absorb the impact generated by the global competitiveness that characterizes today's entire real economy, should encourage and promote the development of these organizations. This ensures not becoming anchored to an offering that, within a few years, might become so outdated that it no longer suits the new market needs.

However, startups, given their structural peculiarities, are fragile both financially and organizationally. This necessitates analyzing the internal and external dynamics affecting their ability to persist within the economic and productive fabric. To this end, this paper aims to provide an overarching overview of the general aspects that delineate and characterize innovative startups. Subsequently, the focus shifts to studying the dynamics that significantly impact their development and makes the ventures fail.

The first chapter will trace the origins of startups from the beginning, and will go through the overview of what usually are the steps defining the life of the venture. Last section of this first chapter presents the Italian industry with official papers issued by the Italian government.
The second chapter, the heart of this paper, will offer an in-depth analysis of the drivers that influence the likelihood of failure for startups in the Italian context.
In the final section of the paper, a better look will be given on one of the most influential determinants of the Italian startups' efficiency: the startup jurisdiction. Lastly, proposing some hints to foster the entrepreneurial activity and development of a thriving Italian ecosystem that can become the primary source of progress within the Italian landscape.

## Chapter 1: the Italian Startup Ecosystem

### 1.1 Startup and their origin

As cited in the Oxford English Dictionary (1989 edn) the term “start-up”, in the business sense, has been first recorded by Forbes Magazine published on 15 Aug. 1976, 6/2, *The unfashionable business of investing in startups in the electronic data processing field*.
While the combination of words “*startup company*” arrived a year later in the magazine Business Week (Industr. ed) published on 5 Sept. 1977 : An incubator for startup companies, especially in the fast-growth, high-technology fields.[...]

During the earliest days of the United States, the original form of a startup was that of a small business which had a prevalent position in the economy. In fact, small businesses were essential to the growth of the country, as they provided goods and services that larger companies couldn't or wouldn't.
One of the most famous examples of an early startup was Benjamin Franklin's printing business. Franklin was an entrepreneur who saw an opportunity to make money by printing books, pamphlets and newspapers. He opened his company in 1730 and succeeded right away. His success was due to his innovative printing techniques and his commitment to quality customer service.
The trade post was yet another early variant of a startup. Trading posts were set up by traders and merchants in remote areas where it wasn't easy for large companies to access customers. They usually offered repair and maintenance services as well as the sale of not available goods including food, clothing, and equipment.
The industrial revolution brought new forms of startups which together with new technologies came new opportunities for entrepreneurs, such as those who established factories and mills. As a result of their ability to produce goods on a much greater scale than ever before, these enterprises frequently had profound effects on both their local economies and worldwide marketplaces. As a result, several of these companies developed into enormous businesses that currently control whole industries.
Although the idea of a startup has evolved significantly over time, its fundamental principles have not changed: seizing an opportunity, taking a risk, and devoting resources to the development of something new.

Although these days startups are more frequently associated with technology-based firms that offer advanced goods and services, the fundamental concepts still hold true. Throughout history and into the future, startups, in whatever shape they may take, have been and will be crucial to economic growth.

A technical definition is provided by art. 25, comma 2, Decreto-legge n. 179/2012 of the Italian legislation: An unlisted joint-stock company, also established in cooperative form, meeting the following requirements: i) it is newly established or established for less than 5 years; ii) has its head office in Italy, or in another EU member country or adhering to the European Economic Area, provided it has a production site or branch in Italy; iii) has an annual production value of less than 5 million euro; iv) does not distribute and has not distributed profits; v) has as its exclusive or prevalent corporate purpose the development, production and marketing of innovative products or services with high technological value; vi) it is not formed by a merger, demerger or following the sale of a company or business unit; vii) lastly, it has at least one of the following three indicators of innovation: 1. a share equal to 15% of the higher value between turnover and annual costs can be attributed to R&D activities; 2. at least 1/3 of the total workforce is made up of doctoral students, research doctorates or researchers, or at least 2/3 of partners or collaborators in any capacity with a master's degree; 3. the company is the owner, custodian or licensee of a registered patent (industrial property right) or owner of a registered original computer program.[1]

Nowadays a startup is commonly intended as a newly established business venture or company, typically with a unique business model, innovative product or service, or disruptive technology that has the potential to scale and grow rapidly. Startups are often founded by entrepreneurs or small teams of individuals who seek to bring a new product, service or business idea to the market. Startups usually operate in an environment of high uncertainty, taking on significant risks and challenges as they seek to establish themselves in the market. They often require significant amounts of capital, as well as extensive networking and marketing efforts, to grow and succeed.[2]

In many cases, startups are focused on disrupting existing markets or creating entirely new ones, and may face stiff competition from established businesses. Successful startups often rely on innovation, creativity, and a deep understanding of their target market to overcome these challenges and achieve sustainable growth over time. These kinds of businesses shall

[1] https://www.mimit.gov.it/images/stories/Art25-dl179-2012.pdf

[2] Definition elaborated through Entrepreneurship, Innovation and Technology 2022/2023 course material, LUISS university

respect the necessary condition of generating profits in a reasonable timeframe for the survival of the business itself.

Innovation, growth, high risk, adaptability, human capital are all key drivers of this kind of venture. Startups are typically run by a small team of founders and early employees who are responsible for all aspects of the business, from product development to marketing and sales. The team has ambitious growth goals and seeks to rapidly scale their business. This growth is often fueled by investment from venture capitalists or other sources of funding. By their nature startups are often high-risk ventures, with a high degree of uncertainty around their business model, market demand, and future prospects. As a result, startups may be more likely to fail than established businesses. For this reason, agility and adaptability are fundamental in order to respond to changing market conditions and customer needs as the team of founders must show the willingness to experiment and pivot their business model as necessary.

Innovation is a fundamental aspect of startup entrepreneurship, it has been studied and defined in relation to business by several economists. For instance, the definition given by the economist Peter Drucker, in its article The Discipline of innovation, states: "Innovation is the specific function of entrepreneurship, whether in an existing business, a public service institution, or a new venture started by a lone individual. It is the means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth."[3]

Still, the willingness of carrying on innovation as the core value of the business is not enough to reach success. A startup is often betting the company on an innovation looking forward to successful companies which make between 25% and 50% of their profit from new products, still it is important to underline that between 90% and 95% of innovations fail.[4]

To understand the complexity of the Italian startup scenario it is paramount to identify some of the protagonists which inhabit the landscape.

In first place, the entrepreneur: the individual who takes the initiative, risks and responsibilities. Usually is the founder of the startups, innovative companies with rapid growth potential that operate in a scenario of uncertainty and involving technology.

[3] https://hbr.org/2002/08/the-discipline-of-innovation

[4] https://professionalprograms.mit.edu/blog/design/why-95-of-new-products-miss-the-mark-and-how-yours-can-avoid-the-same-fate/

Entrepreneurs and startups are the protagonists of the ecosystem, they play a crucial role in driving economic growth, innovation, and employment.

The startup industry is characterized by the presence of incubators, defined by Gualandri and Venturelli as "structures in which researchers and young entrepreneurs can develop their projects, taking advantage of a series of resources and services that allow the growth of new companies. These are physical spaces capable of hosting new businesses, providing them with technical equipment, human resources and business skills useful for facilitating their development. The objectives of the incubators are: to increase entrepreneurship in the world of research, to facilitate technology transfer, to facilitate meetings with potential private investors, to find and distribute state subsidies with the aim of developing the territory"[5].

Along with incubators there are two other figures with the aim to help newly-founded ventures gaining the tools to succeed: accelerators and innovation hubs.

Accelerators are non-profit legal entities that support the development of startups.[6] They offer acceleration programs that include mentoring with market experts, training to apply in practice what has been learned and contact with other professionals, investment funds and investors.

Innovation hubs are physical or virtual spaces that offer all the infrastructure for startups to put their ideas into practice and network.[7] They bring together several startups from different segments in the same place, with the aim of promoting connections between entrepreneurs to generate customers and partners.

Among the various sources of credit for the startup industry, there are unique figures of private investors, which are usually distinguished in Venture Capitalists and Business Angels. The former are companies that obtain funds from institutional investors like banks, insurance companies or investment funds. These companies usually specialize in a certain industry and often invest large sums of money. Business Angels, on the other hand, are informal, non-institutional investors who contribute with capital by becoming shareholders of the company. They have managerial experience in the sector in which the startup wants to enter and can therefore sometimes also play the role of mentor or coach, contributing to the growth of the startup.[8]

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[5] E. Gualandri, V. Venturelli (2011), *Business Angel: investitori a valore aggiunto*

[6] https://www.svb.com/startup-insights/startup-growth/how-do-startup-accelerators-work

[7]https://www.mckinsey.com/industries/public-sector/our-insights/building-innovation-ecosystems-accelerating-tech-hub-growth

[8] Ballista, L. (2012). I driver del successo delle Digital Start-Up italiane. Università Commerciale "Luigi Bocconi"- Facoltà di Economia, Milano.

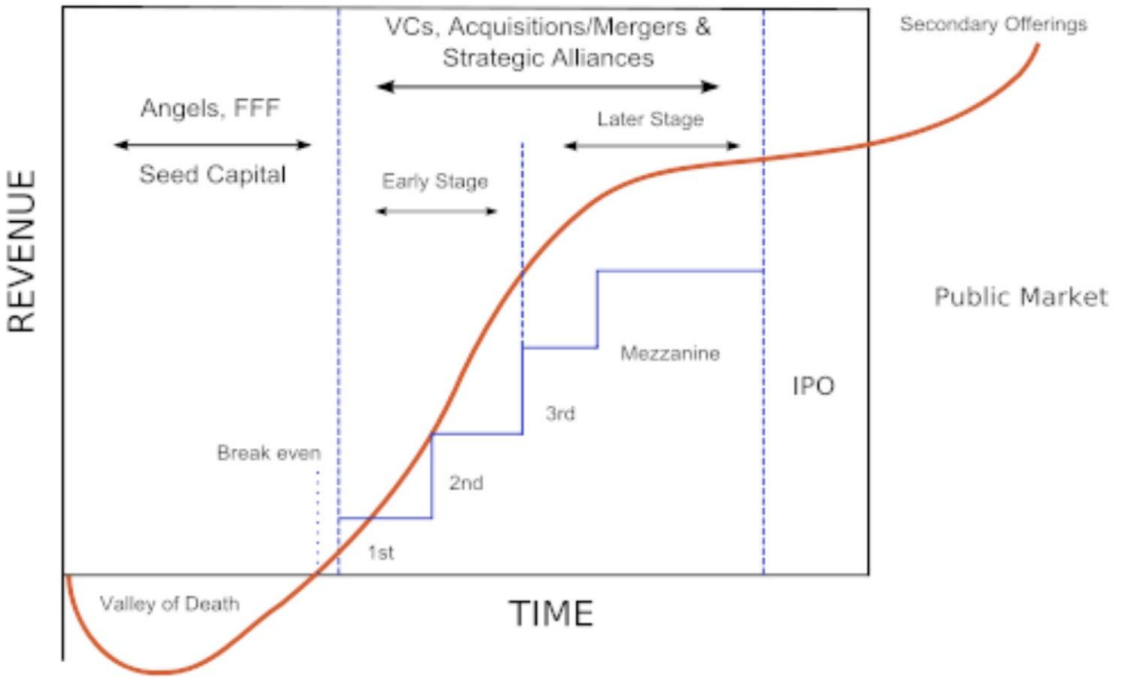
Together with the figures described above, the context of startups is influenced by the broader economic, social, and cultural environment in which new ventures operate. This context includes factors such as market conditions, government policies, cultural attitudes towards entrepreneurship, access to funding and resources, and the overall economic climate.
Startups operate within a dynamic and complex environment, which can have a significant impact on their success or failure. For example, favorable market conditions and government policies that support entrepreneurship can create a more conducive environment for startups to grow and thrive.
Similarly, a strong network of mentors, investors, and industry experts can provide startups with the resources and support they need to succeed.
On the other hand, challenging market conditions, unfavorable government policies, and limited access to resources can create significant barriers to entry for startups, making it difficult for them to succeed. In addition, cultural attitudes towards entrepreneurship can also play a role, with some societies valuing risk-taking and innovation more than others. Understanding the figures present in the context of startups and their interactions is important for entrepreneurs and policymakers alike, as it can give birth to strategies for supporting and promoting entrepreneurship. By addressing key challenges and creating a more favorable environment for startups, it may be possible to encourage innovation, create jobs, and drive economic growth.

### 1.2 Startup Lifecycle

Before proceeding with an overview of the Italian startup industry, it is appropriate to spend a few words on the life cycle of the startup itself. In fact, like all companies, start-ups usually go through different phases, during each of which they have to face different needs and difficulties.
Industrial demography deals precisely with studying the aspects in which new companies differ from the pre-existing ones, as well as the characteristics of those companies that manage to survive after a certain period of time from their establishment.[9] In this context, the evolution of the companies' population existing at a certain moment within a certain territory is studied in terms of birth, migration or interruption of the business activity.

[9] Van Wissen, L. (2002). Demography of the Firm: A Useful Metaphor? European Journal of Population.

Figure 1: startup lifecycle and its financing necessities




Source: Clic Lavoro, Portale Unico della Rete Nazionale dei Servizi per le Politiche del Lavoro

The creation of a startup begins when an entrepreneur or a team believes to have built an innovative business model. Immediately after, the *pre-seed phase* starts and the feasibility of the project is studied. Usually in this preliminary phase there are still neither costs nor revenues, except in cases where the creation of a prototype is necessary; for this reason this initial period is not included in Figure 1. In the real world, it's not necessary to have an entirely innovative idea to start a business. It is common practice to start a business with the intention of entering an existing market with superior goods or services with respect to those of the rivals. As a result, entrepreneurs imitate other successful companies by adopting their organizational models. Nevertheless, every business and entrepreneur starts with an original idea that will be developed over time. The success and the impact that the startup will have on the industry will depend on the uniqueness of the business idea and its degree of innovation, e.g. Apple, Tesla, Facebook.

Subsequently, the real operational phase called *the early stage* begins. This phase is divided into two parts: *seed* and *start-up*. *Seed* means that the project needs a certain period for the idea to be better developed from a theoretical point of view, which usually happens for start-ups in technology-intensive sectors. In this phase it must be verified that the project is

feasible and to demonstrate the effectiveness of the product, even huge investments may be necessary.[10]

It is in this phase that the business plan is conceived. This document with both descriptive and financial functions will enable the business venture to structure itself and gain credibility to raise capital. It is a first analysis of the venture and helps the founders set their first objectives and goals. The business plan of a startup should not be thought of as a stable and one-shot piece of paper but something extremely fluid and evolving overtime. Due to the predictive nature of the drafting itself, it is necessary to adjust the model overtime in order to have clear what has been achieved and which were the plans. As already stated, adaptability is one of the most important characteristics that a startup shall have.

Together with the business plan, startups in the early stages concentrate on developing their products, acquiring a clientele, and ultimately generating an appropriate amount of profits. Early-stage business strategies sometimes entail creating an MVP (Minimum Viable Product) in order to gather market data and determine whether or not customers would accept the product or service offered. After carefully analyzing the data obtained from these tests, the early-stage startup may be prepared to make adaptations and changes (*pivot*), and perhaps start anew, on the basis of the outcomes. The early stage phase's objective is to create a scalable product that can be shown to potential investors through a persuasive and successful pitch, allowing the Startup to raise money.

Finally, when the product or service is ready to be placed on the market and launched, we enter the real *start-up phase*.

It is in the early stage that the need for funding is most relevant. As shown in Figure 1, in fact, revenues (indicated by the red line) are still at a low level and are therefore not yet sufficient to finance the investments necessary to expand the business. The start-up is therefore in a critical moment, as on the one hand it has high costs and on the other hand it has limited sales. In this case, therefore, the need arises to resort to professionals or managers who are able to manage the performance of the company in the best possible way.

At a later stage (*later stage* or *early growth*) commercial expansion (e.g. new hires) can be financed by resorting at least in part to the revenues of the business, which in the meantime should have reached high levels. Indeed, in this phase, the high growth rate of sales makes it

[10] Ballista, L. (2012). I driver del successo delle Digital Start-Up italiane. Università Commerciale "Luigi Bocconi"- Facoltà di Economia, Milano.

possible to gradually reduce the capital intensity that comes from investors and increase the level of self-financing.[11]

As reported on the figure, the funds necessary to finance the development of the start-up can come from loans from friends, family or fools (FFF), bank loans or from other private investors, or from public or private contributions to entrepreneurship (in the latter case it can be financing grants or loans with subsidized interest rates). The investments that the company received in this phase can be divided into *seed financing* and *startup financing*. The former are necessary to finance the development of the prototype, the patent or the very concept of the product or service; the latter are employed to start the business and to finance its organization from an administrative and commercial point of view.[12]

Private investors are usually divided into Venture Capitalists and Business Angels, which have already been described above.

When the startup begins to expand, it enters the so-called *early growth phase*, in which the number of customers increases and with it the turnover. At this stage, a new injection of capital by investors may be necessary in order to meet growing customer demand. If no crises occur, internal or external to the start-up, we finally move towards the last phase of *sustainable growth*, which will lead to the exit, also called *buyout*.

This last phase defines the company's exit from the start-up category, but does not necessarily imply its transformation into a mature company. At this stage, the money lent by the investors is repaid and various exit methods can occur. The most frequent are the *Initial Public Offering* (IPO, listing on the stock exchange), the acquisition by third parties, the repurchase of the shares of the start-up by the entrepreneur himself (*buy back*) or the bankruptcy of the start-up.

It is appropriate to discuss an exit strategy once the firm has completed its journey, established its presence in the market, and collected a stable customer base, nearly entirely automating its procedures. The selling of startup shares is part of the exit plan. The collecting of capital gains, also known as the monetization of the increased worth of the company, allows both the founding members and the investors to maximize their earnings, and is typically seen as the ultimate goal of a startup.

This *planning stage* should include careful pondering and long term vision of the potential exit strategy. Implementing an exit strategy does not always involve selling the business

[11] E. Gualandri, V. Venturelli (2011), *Business Angel: investitori a valore aggiunto*

[12] Ballista, L. (2012). *I driver del successo delle Digital Start-Up italiane*. Università Commerciale "Luigi Bocconi"- Facoltà di Economia, Milano.

when it experiences adversity, but it can be viewed as a wise move to be watched and studied as an opportunity to be taken. An exit strategy can be implemented in three different ways, each of which meets a particular requirement. Of course, there is always the option of forgoing any exit strategy and keeping ownership of the startup. A business owner is free to choose the best course of action, and in this situation, if the enterprise is sound, consolidated, and high-yielding, he could easily keep running it. In this situation, not implementing an exit strategy can be the best course of action. Similar to how not all businesses need to raise money from venture capitalists and business angels, not all startups need to sell themselves to a bigger company in order to give back to the founders, staff, and investors. Businesses that are able to develop a stable and expandable business strategy may decide to stay independent and reinvest their revenues in the firm. In order to provide liquidity to third parties while avoiding public markets and the ensuing obligations, a portion of these gains can also be divided among investors as a dividend.

Excluding bankruptcy, there are three main strategies:

1. Acquisition is the most adopted practice to maximize profits, in this case a larger company acquires control of the startup.
2. Mergers are adopted to allow the acquiring company and the acquired to collaborate together to reach better performances or creation of products based on both the know-hows of the two entities.
3. The IPO allows the startup to enter the stock market and by doing so selling shares to investors.

### 1.3 The Italian Industry and Its Entrepreneurial Culture

Central to Italy's startup ecosystem is its entrepreneurial culture, deeply integrated in the fabric of its society. Italian entrepreneurs exhibit a unique set of qualities, including a passion for innovation, a commitment to quality, and a talent for combining tradition with modernity. Going deeper in the analysis, numbers and statistics issued by the Ministero delle Imprese e del Made in Italy will be discussed looking through two documents: the "Cruscotto di Indicatori Statistici - Dati Nazionali" and "RELAZIONE ANNUALE AL PARLAMENTO sullo stato di attuazione e l'impatto delle policy a sostegno di startup e PMI innovative".

The startup industry in Italy continues its run reaching new important goals both for the number of companies recorded in the register of the Chamber of Commerce and for fundraising from venture capital and institutional investors. However, it must be remembered that these numbers shall not lead to an excess of enthusiasm, as the ecosystem of startups in the Italian context continues to show elements of fragility which are often linked to the difficulty of accessing credit, the lack of skills towards corporate teams and the difficulty of strategically planning the development paths of the respective business ideas.[13]

The territories acting as aggregators of best practices and case histories, show a widespread presence and thematic areas in the cities of Rome and Milan. Other ecosystems are also growing with reference to Veneto, Emilia-Romagna, Campania up to the island ecosystems of Sardinia and Sicily. Here an important work carried out by the public administration is highlighted. In particular, municipalities and regions are investing in projects of a youthful and innovative nature, also linked to the co - participation of women-owned startups that are reporting important numbers in terms of patents, intellectual property and inclusion of the territory in the name of digital, innovation and sustainability objectives linked to the UN 2030 agenda.[14]

The fastest growing sectors remains the blockchain, artificial intelligence and robotics, trends that have led to an ever-increasing number of investments which, specifically, with regard to venture capital in Italy in 2022, have reached and exceeded the milestone of two billion euros, +67.3% compared to 2021 in contrast with the other European countries. However all this, as mentioned above, must not lead to excessive enthusiasm since, even if the expectations on investments and the number of scaleups in Italy are met, these are not sufficient if not supported by adequate investment policies, with the aim to create greater interaction and dialogue between public and private investors, universities, research institutes and incubators. Companies must therefore have the common intent in supporting digital innovation processes, considering that the Italian market is always far from the investment volumes of the various international partners. Certainly, the foundations are there, but important goals still need to be achieved in order to have a stable multiplier effect and above all greater relevance in terms of research and innovation for the development of our country's ecosystem.

[13] https://smallbiztrends.com/2022/12/startup-statistics.html

[14] https://www.mimit.gov.it/images/stories/documenti/Relazione_annuale_del_Ministro_al_Parlamento_Startup_e_PMI_innovative_2022.pdf

According to data from Anitec-Assinform, the highlighted scenario complies with what is described above.[15] In particular, as shown in Tab.1, there are 14.029 startups with the Ateco code[16] associated with the ICT sector registered at the end of the first three months of 2023, with a growth of 8.6% compared to what recorded at the end of the last quarter of 2021, and down by 233 units (-1.6%) compared to the last quarter of 2022. The territorial distribution remains stable with more than half of the enterprises concentrated in three regions: Lombardy which accounts for 26.73% of Spmi Ict, Lazio (13.06%) and Campania (9.97%). Followed by Emilia-Romagna (7.42%), Veneto (6.61%), Piemonte (5.55%), Sicily (5.10%), Puglia (4.48%), Tuscany (4.44%), Marche (2.33%), while the other regions represent shares around 2% and less.

Table 1: Startups' Regional distribution and density - Ranking of regions

| Classifica | Regione | N. startup innovative 1° trim 2023 | % rapporto startup innovative sul totale nazionale | % rapporto startup innovative sul totale nuove società di capitali della regione |
|---|---|---|---|---|
| 1 | LOMBARDIA | 3750 | 26,73 | 4,81 |
| 2 | LAZIO | 1832 | 13,06 | 3,36 |
| 3 | CAMPANIA | 1398 | 9,97 | 3,15 |
| 4 | EMILIA-ROMAGNA | 1041 | 7,42 | 3,82 |
| 5 | VENETO | 928 | 6,61 | 3,24 |
| 6 | PIEMONTE | 779 | 5,55 | 3,95 |
| 7 | SICILIA | 715 | 5,10 | 3,17 |
| 8 | PUGLIA | 629 | 4,48 | 2,65 |
| 9 | TOSCANA | 623 | 4,44 | 2,68 |
| 10 | MARCHE | 327 | 2,33 | 3,92 |
| 11 | ABRUZZO | 295 | 2,10 | 3,43 |
| 12 | TRENTINO-ALTO ADIGE | 287 | 2,05 | 4,83 |
| 13 | FRIULI-VENEZIA GIULIA | 260 | 1,85 | 5,10 |
| 14 | CALABRIA | 260 | 1,85 | 2,85 |
| 15 | UMBRIA | 240 | 1,71 | 5,01 |
| 16 | LIGURIA | 227 | 1,62 | 3,19 |
| 17 | SARDEGNA | 201 | 1,43 | 2,48 |
| 18 | BASILICATA | 141 | 1,01 | 4,96 |
| 19 | MOLISE | 80 | 0,57 | 4,07 |
| 20 | VALLE D'AOSTA | 16 | 0,11 | 3,32 |

Fonte: Cruscotto di Indicatori Statistici - Dati Nazionali - primo trim. 2023

The distribution of Spmi Ict (startup and piccole e medie imprese involved with information - communication technologies) by line of activity was also substantially stable, with significant shares in artificial intelligence & machine learning (12.1%), Internet of Things (10.7%), mobile apps (8.3%) and important shares for big data and data science (5.1%), blockchain (4.7%), cloud (3.8%), industry 4.0 (3.7%). The share of Spmii Ict in the cybersecurity and crypto sector is very low (2.2%). With this new perimeter of 11,487 companies, the ICT share

[15] https://www.anitec-assinform.it/pubblicazioni/studi/startup-e-pmi-innovative-ict-performance-economica.kl
[16] The Ateco code is An automatic coding tool that makes it possible to identify and classify economic activities. definition provided by https://www.istat.it/en/archivio/17959

of the total of innovative ICT startups and SMEs (16,554 in October 2022) increases to 69%, or more than 2 out of 3.

Table 2: Startups' distribution by economic sector

| COMPARTO | Dettaglio principali DIVISIONI | N. startup innovative 1° trim2023 | % rapporto startup innovative del comparto sul totale del territorio | % rapporto startup innovative sul totale nuove società di capitali del comparto |
|---|---|---|---|---|
| Agricoltura e attività connesse | TOTALE | 105 | 0,75 | 1,55 |
| Attività manifatturiere, energia, minerarie | C 26 Fabbricazione di computer e prodotti di elettronica e ott... | 303 | 2,16 | 41,79 |
| | C 28 Fabbricazione di macchinari ed apparecchiature nca | 390 | 2,78 | 19,61 |
| | C 32 Altre industrie manifatturiere | 193 | 1,38 | 15,91 |
| | TOTALE | 2111 | 15,05 | 6,35 |
| Costruzioni | TOTALE | 137 | 0,98 | 0,20 |
| Commercio | TOTALE | 431 | 3,07 | 0,57 |
| Turismo | TOTALE | 64 | 0,46 | 0,17 |
| Trasporti e Spedizioni | TOTALE | 33 | 0,24 | 0,27 |
| Assicurazioni e Credito | TOTALE | 39 | 0,28 | 0,32 |
| Servizi alle imprese | J 62 Produzione di software, consulenza informatica e attività... | 5649 | 40,27 | 46,22 |
| | J 63 Attività dei servizi d'informazione e altri servizi infor... | 1193 | 8,50 | 17,57 |
| | M 72 Ricerca scientifica e sviluppo | 1978 | 14,10 | 68,94 |
| | TOTALE | 10760 | 76,70 | 9,63 |
| Altri settori | TOTALE | 309 | 2,20 | 1,17 |
| Non Classificate | TOTALE | 40 | 0,29 | 3,32 |
| Totale complessivo | TOTALE | 14029 | 100,00 | 3,65 |

Fonte: Cruscotto di Indicatori Statistici - Dati Nazionali - primo trim. 2023

Table 2 gives a general overview to startups' distribution by the economic sector in Italy provided by the Cruscotto.

Among the innovative startups, the average production value per company is equal to 185,168.25 euros. The average assets are approximately 372,708.14 euros per innovative startup. Finally, considering the total production, it amounts to 1.7 billion euros (1,780,948,181 euros).

The data on the median value of production is equal to 32,693, a value lower than the average: a confirmation of the fact that the majority of registered innovative startups are still in an embryonic stage of development.

Total operating income recorded is a negative 133 million euros.

One of the parameters that most distinguishes innovative startups from other new joint stock companies is the high level of fixed assets on the net assets: in this quarter the ratio is equal to 30.1%, i.e. almost 8 times higher than the ratio average recorded for the other new companies, equal to 3.9%.

Companies making a profit exceed those making a loss: over 50.1%, against the remainder (about 49.9%) which reports a loss for the year. As is physiological for companies with a high

technological content, which have longer times to access the market, the incidence of loss-making companies among innovative startups is significantly higher than that detectable among new non-innovative joint-stock companies (equal to 29.7%). The financial independence index of innovative startups is 0.39, lower than that recorded by other new non-innovative companies (0.44). If we consider only innovative startups and capital companies making a profit, the figure is 0.37 against 0.44.
This in-depth description of the startup industry has been possible through the elaboration of data provided by the Ministero delle Imprese e del Made in Italy and Confindustria - Anitec-Assinform.

Now that it has been clarified the Italian startup momentum, it is appropriate to have a brief overview of the actual successful ventures.
Starting from the most deserving Italian projects present at the last CES in Las Vegas arriving to the latest surveys by national observatories: new unicorns, which are private startup companies worth over $1 billion, could soon appear on the horizon of the startup world.
Among the unicorn companies it is certainly necessary to mention Scalapay, active in the fintech sector and specialized in payment by installments. Scalapay was founded by Simone Mancini e Johnny Mitrevski in 2019, and last February reached one billion dollars of value. The list of Italian companies with a value of over one billion seems destined to soon add Bending Spoons and MusixMatch, two start-ups active in the digital and music sector that have made a lot of noise in recent months. Finally, the Italian Satispay active in the online payment sector.
On the other hand, if we look abroad, it is interesting to point out the Swedish Klarna, a unicorn for more than ten years and which today has a value of 6.7 billion dollars, which also deals with fintech and payment by installments. Along with the case of the British Revolut, a unicorn since 2018 and now worth 33 billion dollars, which offers banking services, including a prepaid debit card, currency exchange, cryptocurrency exchange and peer-to-peer payments. And finally, the unicorn with the greatest value is the Chinese ByteDance, owner of Tik Tok, a unicorn since 2017 and today worth 140 billion dollars.
It is impossible not to include Elon Musk in the list: the owner of Tesla is also the owner of Space X. The American company, worth 127 billion dollars, aims to create technologies to reduce the costs of accessing Space and allow the colonization of Mars.

## Chapter 2: Startups' Failure Factors

According to existing literature regarding the failure factors of startups, it is noticeable how the analysis has been conducted dividing the macroarea in three main categories: the characteristics of the entrepreneur and the team, the peculiarities of the start-up and the conditions offered by the external environment in which the start-up operates. From the analysis emerged that the main factors to consider are: the aptitude of the entrepreneur, or of the team; the ability to create a good organization from a managerial and financial point of view; the sensibility to understand actual customer needs; knowing how to adequately introduce the startup to potential investors in order to raise the necessary capital.

Before proceeding, it should be outlined that it is possible to consider as dual both the factors underlying success and those which instead determine the failure of a start-up. This means that empirical evidence has shown that the factors present in success cases are absent when the company fails and vice versa.[17]

Existing studies on the topic fall into two main categories. On the one hand there are those who focus on the characteristics of the entrepreneur, for example in terms of training, experience and competence; but also from a more psychological point of view, for example as regards the motivations that drive the individual to get involved in a project in which he believes. On the other hand, there is a substantial part of literature that focuses instead on the factors, both internal and external, which influence to varying degrees the probability of success or failure of a startup. Internal factors concern, e.g. , the organization and presence of qualified human resources, while external factors can be well represented by the presence or scarcity of interested investors and a banking system ready to finance entrepreneurial initiatives. Due to the deep difference between the roots of what influences internally and externally the startup, the present work will focus on the analysis of three large groups of factors: those relating to the individual entrepreneur (individual characteristics), the internal ones specific to the startup and finally the external ones relating to the environment in which the startup operates.

Keats and Bracker propose a six-factor model to explain the performance of small firms; these six factors are in turn divided into three broad groupings: the surrounding environment

[17] Why Some Startups Succeed (and Why Most Fail) | Entrepreneur

in general, the operating environment and the personal characteristics of the entrepreneur.[18] The operating environment includes the firm's relationships with customers, suppliers, competitors, and regulatory agencies, while the general environment includes understanding and employing management strategies. Personal characteristics are here defined in terms of "entrepreneurial intensity", i.e. those behaviors that distinguish entrepreneurs from those who are not, and motivation to achieve the goal. The authors also suggest that another relevant element is constituted by the perceived intensity of market influences, i.e. the level of competitive pressure.

Mehralizadeh and Sajady also make a distinction between internal factors (entrepreneur's personality and motivation, commitment, attitude towards risk) and external factors (economic and infrastructural conditions, inflation, degree of market information, supply and demand for products and services, degree of development of the banking system, trade regulation, availability of qualified personnel, etc.) in determining the probability of success of start-ups.[19] With reference to the Iranian context, the authors report among the main barriers: insufficient support from the government, changes in regulation, forms of unfair competition by large companies, the poor level of investment security and the spread of corruption (Mehralizadeh and Sajady, 2006).

Peña focuses on the study of intellectual capital as a determinant of the success of a start-up.[20] The author identifies three main types of intellectual capital: human capital, organizational capital and relational capital. Each of these blocks includes significant intangible elements, such as entrepreneurial skills, the ability to make the right strategic decisions, flexibility with respect to the changing conditions of the market within which it operates, the ability to build a network of contacts with external figures like customers and suppliers. Precisely in order to constitute these forms of capital, the author affirms the fundamental importance of start-up incubators, which allow new companies to have access both to tangible capital like space, equipment, and to specific training programs, technical assistance and networking possibilities (Peña, 2002).

Starting from the consideration that small businesses are particularly vulnerable in the early years of their activity, Watson, Horgarth-Scott and Wilson propose to identify the characteristics that distinguish companies that have been able to overcome the initial stages

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[18] Chen, J., Khanna, D., & Chawla, S. (2010). *Are small business critical success factors the same in different Countries? SIES Journal of Management*.

[19] Mehralizadeh, Y.,& Sajady, H. (2006). *A study of factors related to successful and failure of entrepreneurs of small industrial business with emphasis on their level of education and training. SSRN Electronic Journal*

[20] Peña, I. (2002). *Intellectual capital and business start-up success. Journal of Intellectual Capital , 3*

and transform themselves into prosperous businesses, from those that have instead declared bankruptcy or have in any case exited the market[21]. Although there is an extensive literature on entrepreneurship and the critical success factors of start-ups, it is difficult to trace a unitary theoretical framework; for this reason the two authors present the conceptual scheme at the basis of their research as follows. First, they make a distinction between the internal and external environment of the firm. Inside they take into consideration two macro-categories of factors: the characteristics of the founder like his experience, socio-economic background, skills and knowledge, as well as character and personality, together with expectations and values. Then they consider the characteristics of the business in which the company operates e.g work and technology, financial aspects, strategies, management and available resources.
Among the external factors, it is fundamental to include the business infrastructure, i.e. the number and characteristics of competitors, suppliers, banks, government bodies and support agencies, and the customers of the business itself. In fact, the specific reference market segment is identified in terms of geography, demographics, consumption or lifestyles, purchasing and/or organizational behavior. The two external factors mentioned above are grouped under the denomination of macro-economic environment (Watson K.,Hogarth-Scott, S. & Wilson , 1998).
As regards specifically the success factors, the authors underline how a set of determining elements for the success of the entrepreneurial project has been identified from time to time. These elements would be linked to each other through complex relationships and it would therefore not be possible to identify an ideal set of characteristics that the owner of a start-up should possess to ensure success. In most cases successful entrepreneurs are those who can count on the support of their family, in terms of psychological support, satisfaction and quality of life, before financially.

### 2.1 Factors Linked to the Entrepreneur

As previously mentioned, the entrepreneur with his innovative idea is the one who creates a new business, identifies a new market or niche, using a new technology. It is therefore evident that the individual characteristics of the founder of a start-up plays a fundamental role in determining the success or failure of the entrepreneurial project.

[21] Watson K.,Hogarth-Scott, S. & Wilson ,N. (1998 ). *Small business start-ups: success factors and support implications.International Journal of Entrepreneurial Behaviour & Research, 4*

The main characteristics analyzed are the composition of the team, the family background, training and any previous experience in the sector in which one would like to enter.

In this regard, Fielden, Davidson and Makin in their work "*Barriers encountered during micro and small business start-up in North-West England"*, recall that among the important elements in the creation of a new business, it is appropriate to include the personality of those involved in the project, their age, family situation and previous experience, as well as their motivations, the support they are able to receive and any economic and financial difficulties they could encounter (S. Fielden, M. Davidson, & P. Makin 2000).[22]

As an example, Based on UK data, there is empirical evidence of a greater probability of survival for firms led by middle-aged men. These men usually have faced short periods of unemployment gaining discrete experiences, and now have the possibility of applying for self-employment. Vice versa, factors that seem to negatively affect the probability of success are long or frequent previous periods of unemployment of the owner and the lack of long-term experience in the sector in which one wants to enter.

Along with the business' starting motivations, the desire to exploit a market opportunity or respond to a perceived customer need rather than personal satisfaction or the desire for autonomy in decisions.[23]

Big are the differences with Italy, characterized by relatively higher percentages of unemployment (especially in the southern regions) with respect to England and a different culture on the concept of failure, which undermines the trial-and-error process of entrepreneurship. To be taken into account is also the singularity of the italian industry, characterized by small and medium companies which have started their business on the basis of valuable and qualitative goods production possibility but without solid knowledge on the entrepreneurial venture: knowing how to be good craftsmen, not how to build a competitive business.

According to Duchesnau and Gartner, successful entrepreneurs are more likely to have parents with entrepreneurial backgrounds, possess management experience, seek to reduce risk, and do not see business success as something within the sphere of what they are able to fully control.[24] Entrepreneurial experience as personal background in fact, would help individuals to formulate more realistic expectations on their own objectives, on the

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[22] S. Fielden, M. Davidson, & P. Makin (2000). *Barriers encountered during micro and small business start-up in North-West England.* Journal of Small Business and Enterprise Development ,7.

[23] H. Neck, C Neck, and E. Murray (2019). *Entrepreneurship - The practice and mindset.*

[24] Duchesneau, D., & Gartner, W. (1990). *A profile of new venture success and failure in an emerging industry*. Journal of Business Venturing ,5.

difficulties they will have to face in setting up and subsequently managing a new business. Such legacy could also prove fundamental when it becomes necessary to overcome a moment of crisis.

Unlike the team's features, the role of family background is often forgotten as it is not part of the work environment. Having a role model within one's own family circle regarding the creation of a new business plays an important role in determining the success or failure of the start-up. Indeed, having a role model within the family is just as important as having one at work. The absence of previous entrepreneurial experience in the family or in the circle of friends can be a difficulty for the new entrepreneur, as the creation of a new business is a full-time commitment and often, especially in the initial phase, it also requires sacrifices on a personal level in terms of less time spent with family members. If the entrepreneurial reality is completely unknown to relatives and friends, it therefore becomes difficult to make them understand the importance of what is being done and the need for total dedication to the project. Although not directly correlated with the success of the start-up, the latter factor can influence the morale and motivation of the entrepreneur, which are in turn important determinants of the success of the initiative (Duchesneau, D., & Gartner, W., 1990).

Peña confirms that the level of training of the entrepreneur, his experience and his motivation are related to the survival of the firm. Data shows that the majority of businesses experiencing growth in sales, employment and profits are run by entrepreneurs with college degrees who have a particular interest in business education programmes. Indeed, the knowledge acquired seems to constitute a necessary asset to build a successful business (Peña,I. 2002).

Finally, according to E. Ferrucci, R. Guida and V. Meliciani the most frequent difficulties of new organizations concern the areas of accounting and finance, marketing and human resource management, in which entrepreneurs often do not have sufficient knowledge and/or do not have the collaboration of experts.[25] Furthermore, new entrepreneurs are sometimes overwhelmed by an excessive workload and by the loneliness associated with having to run a new business independently (Ferrucci et al., 2020).

Before proceeding with the analysis of the second block of factors, however, it should be remembered that, in most cases, start-ups are not born from the action of an individual, but from the combined efforts of a team. The characteristics of the members of this group, as well as the communication and collaboration skills among them, constitute another important

[25] E.Ferrucci, R. Guida and Valentina Meliciani (2020). *Financial constraints and the growth and survival of innovative start‑ups: An analysis of Italian firms.*

element that influences the probability of success or failure of the new venture. According to Lechler, the creation of a solid entrepreneurial team is a key success factor.[26] Particularly in knowledge-intensive industries, such as new technologies, it is unlikely that a single individual possesses all the information necessary to be able to make sound business decisions. It is therefore necessary for more individuals to harmoniously combine their knowledge and skills, in order to create a successful organization. In order to avoid harmful delays in strategic decisions communication between team members must also be frequent and effective. Bringing together different skills and attitudes gives a larger possibility to the start up of establishing bigger networks of contacts outside of the company, due to the higher probability of finding a common attitude with the other company among the variety in the team. The skills of the team members should be complementary to each other, in order to be able to make the most of them within the start-up (Lechler, 2001).

However, it is not enough for several entrepreneurs to join together to create an effective team. It is necessary that the skills and competences possessed by team members are complementary, i.e. different from each other, in such a way that, when combined, they make it possible to effectively carry out all the activities necessary for the success of the project. In most cases the founding partners have similar human capital, for example they are all computer scientists or engineers.[27] This attention to complementarity of skills should be extended also to the complementarity of aptitudes. The willingness to cooperate, to act with transparency and in respect of the other members' personalities shall be combined to the pragmatic organization and role differentiation of the team members. In this way, members who are dreamers or visionaries can focus on innovative ideas necessary to overcome the competition and members with higher accountability skills focus in order, for example, to be able to keep budget and cash flow under control.

The building of a good team makes it possible to compare notes and have efficiency in all phases of project development, rather than realizing that mistakes have been made only when the product is put on sale. Another important advantage of having a team of entrepreneurs is the facility of obtaining financial resources. This is due to the willingness of external investors to finance a more diversified group of entrepreneurs that give them a sort of guarantee of greater control and competence than a single person. Lechler was not the only

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[26] Lechler, T. (2001). *Social Interaction: A Determinant of Entrepreneurial Team Venture Success*. Small Business Economics.

[27] Joonkyu Choi, Nathan Goldschlag, John Haltiwanger, J. Daniel Kim (2019), *Founding Teams and Startup Performance*
hgyf_nov_2019.pdf (nd.edu)

one with this belief, as also S. Blank in his book "*The startup owner's manual*" in accordance with what stated previously, emphasized that with high intensity of specialized human capital there is no need for a single individual to have all the technical knowledge necessary for the realization of the project and it is therefore desirable that more people join forces.[28]

The presence of a well-established team therefore seems to be associated with a better pitching ability, i.e. presenting one's product in a salient and effective way, attracting the attention of potential investors.[29]

In any case, having more than one founder for a single startup is not always a positive thing and instead leading to an exchange of ideas and efficiency leads to disagreements. This has been noticed especially in critical situations or when there is discrepancy inside the team members regarding expectations.

This discrepancy can be described by the difference in goals and objectives in relation to different stages of a team member life cycle. Team members with different ages have different needs and priorities. A person which is completing its studies does not have the same necessities of a person which has a family to maintain. Which means that their perspective is different and the actions they would take for the startup might be different. For example, it is imagined that a student will also feel satisfied by receiving an income on an occasional basis from their commitment to the startup; conversely, those who already have children are likely to need fairly stable income streams.

The problem is often aggravated by the fact that these members were chosen on the basis of friendly relationships and therefore a rigid division of roles was not carried out from the outset. This aspect is essential to obtain an effective division of tasks and therefore avoid ambiguity in determining who must make certain decisions. In this regard, in order to avoid or at least reduce problems and misunderstandings between team members, it is essential that a regime of direct, frequent and transparent communication is established. In this way problems emerge and are addressed as soon as possible in a constructive atmosphere and that there is an aptitude for mediation of any conflicts.

Legally, it is suggested the drafting and signing of shareholders' agreements that clearly establish the tasks of each, in order to avoid future problems. The request to sign such an agreement in the early stages could be interpreted negatively by the other shareholders, as a sort of lack of trust. In the long run, such a strategy makes it possible to avoid confusion of

[28] S. Blank (2020), *The startup owner's manual.* https://ereader.perlego.com/1/book/1425741/15?element_originalid=usec0003

[29] https://www.indeed.com/career-advice/career-development/business-pitching

roles and consequently conflicts between members for decision-making power. It can therefore be deduced that the drafting of adequate shareholders' agreements can prevent one of the members from abandoning the project due to personal conflicts with the others and can therefore constitute a significant factor in reducing the probability of failure of a start-up. In fact, when one of the partners leaves, the technical and/or entrepreneurial skills that he brought to the initiative also leave, often making it difficult to continue the business.

Moreover, one of the problems related to the entrepreneur is the ego.[30] It takes a lot of humility to understand that mistakes are made and that are part of the journey. Often the entrepreneur does not accept the presence of people more important than him in relation to the future of the company (leadership problem).[31]

The central role of knowledge, skills and innovation and the struggle to grant constant quality from them requires big financial efforts.[32] These elements present within the startup are the main drivers which lead newly established companies often to suffer from the areas of accounting, marketing and management. Usually the founders of a start-up have high skills in research and development, which is fundamental in the idea development phase, but then they encounter serious difficulties in the transition from the idea to the business plan and the creation of the actual company.

The psychological aspect plays an important role as entrepreneurs are often young and very enthusiastic about their idea. In such cases, the founders consider control and administrative activities secondary and uninteresting compared to the development of the product itself. Therefore, these activities are tendentially neglected, to the point where it is no longer possible to ignore them and serious problems emerge in relation to the budget.

Even when it comes to marketing, start-up founders often have a distorted perception of the product or service they offer, believing it to be the best possible. Startups' founders do not initially understand to the correct extent, how important it is to place the product on the market. Even more importantly, they underestimate how important it is to sell themselves (as a start-up) to potential investors or customers. On the contrary, they should aspire to embody a successful model and thus win the trust of buyers and investors, precisely through appropriate marketing activities.

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[30] A. Camuffo, A. Cordova, A. Gambardella (2018). *A Scientific Approach to Entrepreneurial Decision Making: Evidence from a Randomized Control Trial.*
https://repec.cepr.org/repec/cpr/ceprdp/DP12421.pdf

[31] H. Neck, C Neck, and E. Murray (2019). *Entrepreneurship - The practice and mindset.*

[32] S. Blank (2020), *The startup owner's manual.*
https://ereader.perlego.com/1/book/1425741/15?element_originalid=usec0003

A similar argument applies to accounting and financial skills. On the basis of what has been said, it is possible to conclude that a high level of training achieved by the founder or by the team of founders is not sufficient to avoid the failure of a start-up. The founders could, in fact, have obtained a very high degree in an extremely technical discipline, but do not have the financial skills necessary for correct management of cash flows and to avoid running into liquidity problems. We then return to the argument proposed previously regarding the team: it is better that there is more than one entrepreneur working on the project and that the different team members have different skills (e.g. IT, managerial, sales, accounting, finance, etc.) so as not to encounter difficulties in the ordinary management of operations.

To conclude the aspect related to the skills present within the company, it should be noted that it is necessary to master the language of the country in which the business is carried out, or at least to have a good knowledge of the English language. Otherwise, start-ups risk losing important business and growth opportunities, as well as encountering significant problems in the collaboration between teammates of different nationalities. Knowledge of a single language, in fact, would inevitably restrict the market and therefore deprive the company of fundamental opportunities for expansion.

Finally, as regards the role of previous entrepreneurial experiences: the presence in the team of at least one member who in the past has been a promoter or in any case has participated in the realization of an entrepreneurial project, is an important factor in reducing the chances of failure of the start-up. The ideal model of the economics or management student who, as soon as he has finished his studies, dedicates himself to the realization of his own commercial initiative, is nonetheless not very realistic. For instance, young entrepreneurs who have just graduated from the university world risk not having the necessary information on what are the main steps to take in order to proceed with the implementation of a project.

In such cases, it is essential to seek the advice of an external expert, such as a business coach in an incubator, or a Business Angel, so as to be able to capitalize on the experience of the latter.

Obviously, an alternative is to involve a partner in the project who has a wealth of previous entrepreneurial experience: he would be able to recognize the typical mistakes that are usually made in the initial stages of the business and to avoid them thanks to the lessons learned from his own personal experience. Of course, this is only valid if the founders are sufficiently open to advice and ready to question their ideas.

Entrepreneurs are sometimes unable to learn from past mistakes, as they are stubborn and too directly involved in the project to accept criticism and see its weaknesses.[33]

More than the level of skills or knowledge possessed by the entrepreneur, the main factor of failure related to the entrepreneur can be given by the latter's attitude. The founder should be able to honestly and objectively evaluate whether he has the necessary knowledge to transform his idea into a company or not. Otherwise, he should resort to hiring qualified human resources (a factor that will be explored in the next section), or to external consultants, business coaches or others, who are able to bring in the missing skills.

It is trivial that having previously been involved in other start-up experiences is a factor that helps to have an open attitude, to recognize problems as soon as they arise and not when they have become insoluble, as well as recognize what skills are needed to solve them. Having reached a high level of training can help the entrepreneur not to make mistakes from a technical point of view. However, entrepreneurs must be aware of the fact that academic training is often distant from reality and that he will have to deal with concrete factors such as market competition and the need for funding.

Finally, since in most industries it is highly unlikely that a single individual has all the information needed to build a successful business, building a strong team of founders plays a critical role and is arguably the most important factor within this first block.

Ideally, as mentioned above, the team should be made up of professional and motivated individuals, whose skills are complementary to each other and who combine with each other in a harmonious way, so that everyone has a specific area to deal with.

Relations between team members should be based on transparency and frequent communication. To this end, it is considered appropriate to establish a clear division of roles from the outset and to stipulate shareholders' agreements in order to avoid future disputes regarding the decision-making roles of each. Such an organization should also make it easier to manage the budget (one of the members should be in charge of keeping the accounts), as well as marketing and managerial activities.

The factors related to the entrepreneur or the team, if considered in isolation, are not sufficient to determine the success or failure of a start-up. For this reason, the second block of factors are those related to the company itself.

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[33] A. Camuffo, A. Cordova, A. Gambardella (2018). *A Scientific Approach to Entrepreneurial Decision Making: Evidence from a Randomized Control Trial.*
https://repec.cepr.org/repec/cpr/ceprdp/DP12421.pdf

## 2.2 Startups' Internal Conditions

To proceed in the analysis of the fundamental roles in determining the success of the company it is necessary to shift the attention from the characteristics of the individual to those of the startup itself.

The most common indicator of success can be considered the company's ability to accumulate capital over time, thanks to constant annual cash flows.[34]

Among the critical factors for the failure of a startup, one of the most incisive is the lack of capital, without which it is impossible to pass from the idea to the commercialization of a finished product.[35] This element is undoubtedly of great importance and a startup is rarely able to easily raise all the funds it needs. To start any business having initial capital is essential, nobody could be hired without capital , nor can the company grow.

Of course, the availability of capital is a necessary condition to ensure the survival of the startup. However, this alone is not enough to ensure the success of the project. More than the amount of funds received by the start-up, the ability to manage them correctly is even more important, in order to avoid running out of funds in a short time.

At the same time, receiving a large amount of funds in the early stages of operations sometimes represents a disadvantage for a start-up. The fact of having been deemed worthy of an initial injection of capital by banks or investors would lead entrepreneurs to overestimate the validity of their project, to reduce the commitment as well as to reduce the efforts to limit the waste.

The capital needs of a startup are highly dependent on the sector in which it operates.[36] It is important to underline that the amount of capital necessary for the success of the project is greater in mature sectors, which are required to exploit economies of scale and have costs comparable to those of competitors already present on the market.

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[34] R.M.Visconti (2021), *Cash Flow Forecasting of Debt-free Startups*
https://www.morovisconti.com/wp/wp-content/uploads/2021/01/cash-flow-startup-16-April-2020-REV.pdf

[35] E.Ferrucci, R. Guida and Valentina Meliciani (2020). *Financial constraints and the growth and survival of innovative start‐ups: An analysis of Italian firms.*

[36] Giardino, C., Wang, X., & Abrahamsson, P. (2014). *Why early-stage software startups fail: a behavioral framework.*
https://arxiv.org/pdf/1709.04749.pdf

For example, a company active in the softwares' sector the collection of a sufficient amount of funds is essential for setting up the infrastructure and for the very beginning of the research's start which will later give rise to a marketable product. Naturally, the situation is quite different if it is considered a startup active in the digital goods or apps sector. In the latter cases, often the idea can be initially developed at a relatively low cost, while large investments will be necessary only at a later stage, when the product must be marketed.

In general, it is important that the company has the required capital to be able to survive at least until the moment in which it will receive the revenues deriving from the first sales cycle. In the event that the business is undercapitalised, many problems are encountered which have a chain effect and lead in many cases to bankruptcy.

Very often, however, if startups are able to find capital, cash flow problems could be faced later on, i.e. the business venture is unable to have enough liquidity. Even if the money is there, it is mismanaged.

With regard to the life cycle of start-ups, it is also known that a newly established company usually needs little or no investment in the pre-seed phase (project feasibility study), while the financing needs become enormous when the start-up reaches the early stage phase, i.e. the actual creation of the product it wants to offer.[37] Subsequently, if the company prospers and aspires to grow by conquering an ever-increasing market share, a new important round of financing may be necessary in the later stage phase. Therefore, it can be deduced that more than the availability of capital itself, the determining factor for avoiding the failure of the entrepreneurial project consists in the availability of capital at the right time (timing), i.e. when the idea must actually see the light and become a marketable product or service. It is also desirable that the presence of adequate initial capital is combined with sufficient financial skills in order to avoid running out of funds received too soon or seeing the cash flow zero.

A further element that leads to failure, is not being able to carry on the startup while facing difficulties coming from the external environment.

In "*The Ambidextrous Organization*", by C.A.O'Reilly, the companies with the lowest risk of failure are those characterized by a flexible and participatory structure, which is well suited to even sudden changes in the external environment.[38] Flexibility is a feature which should not

[37] Ballista, L. (2012). I driver del successo delle Digital Start-Up italiane. Università Commerciale "Luigi Bocconi"- Facoltà di Economia, Milano.

[38] C. A. O'Reilly, M. L. Tushma (2004). *The Ambidextrous Organization*

be taken for granted especially in a startup, characterized by the discrete presence of members with higher education. In many cases negative association between employees with highly specialized skills and the success of the company is registered.[39]

Although this result may initially appear unexpected given that the presence of highly specialized human capital is typically positively correlated with high productivity, it is still plausible that the firm's ability to respond appropriately and quickly to changes in the surrounding economic environment depends on the presence of not overly specialized human capital.

Peña, in fact, finds empirical evidence of a positive relationship between the degree of adaptability of the firm to market conditions and its performance.[40] Adaptability is measured by indicators such as the number of new products, changes in price and quality of existing products, changes in customers, suppliers, company location and trading partners. However, the author suggests that the concentration of suppliers in the vicinity of the startup and the expansion of sales outside the local area can increase the probability of success (Peña, 2002).

Viki, Toma & Gons find as internal success factors the identification of a innovative business idea that is both clear and sufficiently broad, which will be implemented with the use of accurate planning, the elaboration of which is dedicated to a non-negligible amount of time, and the recognition of the various functional areas of the business.[41] Furthermore, carrying out extensive market research and seeking the advice of industry experts are also listed among the elements that contribute to the success of the venture (Viki et al.,2019).

Onyemah, Pesquera and Ali explore the role of marketing and sales skills in determining the success or failure of a start-up.[42] In particular, the authors identify the most frequent mistakes made in marketing the product. Many entrepreneurs regret having completely developed the product before receiving any feedback from customers, thus precluding themselves the possibility of further modifications (Onyemah et al., 2013). Often, due to excessive enthusiasm for their project, the founders of startups do not pay due attention to the criticisms they receive from consumers, or do not bother to strategically manage the network of potential buyers.[43] The entrepreneur addresses the customer only when the design of the

[39] https://www.planet-lean.com/articles/lppd-innovation-boaz-tamir
[40] Peña, I. (2002). *Intellectual capital and business start-up success. Journal of Intellectual Capital , 3*
[41] T.Viki, D.Toma, E.Gons (2019), *The Corporate Startup*.
[42] Onyemah, V., Rivera Pesquera , M., & Ali, A. (2013). *What Entrepreneurs Get Wrong. Harvard Business Review.*
[43] Giardino, C., Wang, X., & Abrahamsson, P. (2014). *Why early-stage software startups fail: a behavioral framework.*
https://arxiv.org/pdf/1709.04749.pdf

product or service has already been completed. Consequently, there is no longer the possibility to make changes based on the needs or wishes of customers, thus losing a valuable source of feedback that could make significant improvements to the competitiveness of the startup itself.

In many cases the founders do not have an open attitude towards the indications that come from consumers and often they fall into errors due to their superficiality. For instance, entrepreneurs are often unable to establish a precise target of customers for their business, as they unrealistically try to serve more than one market segment without considering that they are very different from each other. On the contrary, it is a solid strategy to find a niche to place the product, so as to be relatively less exposed to competition and be able to focus your resources and skills on a narrow area.

Entrepreneurs are often too focused and passionate about their project to understand that it is necessary to translate it into terms that the potential public can understand.

Above all, it is necessary to know how to present it in a way that is interesting and that customers are enticed to buy it.

The fact that the marketing moment of the product or service offered by the start-up is in many cases problematic is consistent with empirical evidence which records some usualities, like giving excessive discounts in the hope of making large sales, or settling into a false sense of security due to successful sales to family and friends. At this point, the entrepreneur feels strong from these first successes and could not realize that it will be much more difficult to sell to customers who are outside his circle of acquaintances. Furthermore, entrepreneurs often tend to treat all their buyers in the same way, without making adequate distinctions on their importance for the success of the startup. On the contrary, it is important to identify who the strategic buyers are.

As previously mentioned, the private life and age of the founders of the venture is of absolute importance as this excess of emotions and absence of cautiousness is linked to entrepreneurs' experience.

Startups are often created by young people, who can still live at home with their parents. Founders in this situation can go on for several months without receiving a salary and still manage to develop the product, while the privilege to commit certain kinds of error is not possible for people who have a family to support or have no one to rely on.

As regards the organization of the startup and the drafting of a business plan, there is yet another point of contact and intersection with the previous section (the personal sphere of the entrepreneur).

Entrepreneurs, sometimes also due to their lack of business experience, may believe that once their innovative idea has been formulated, the creation of a company on this basis takes place almost automatically. Obviously this is not the case and this later causes problems in managing human and financial resources, as well as difficulties in reacting in a timely and appropriate manner to market changes. Even in cases where a business plan is actually drawn up, it happens that entrepreneurs force the elements of the plan to make the structure work, pushed by excessive optimism or perhaps due to a lack of the necessary management knowledge.[44]

Many problems are encountered between the stage of the idea and that of its realization. Many startuppers could think that having an idea is enough and that you can sell it.

Selling an idea is very difficult and for this reason it is necessary to define the business plan in the most concrete and objective way possible. The business plan does not necessarily have to be executed to the letter, but it must be understood that what appears to be a small problem or discrepancy, could likely become an important obstacle when the project is actually implemented. It is necessary to find the right balance, as a business plan is necessarily based on forecasts that are not always reliable, since no data is yet available, for example on what the amount of sales will be.

To avoid failure, it is fundamental for startups to follow a pattern of problem identification, and carefully analyze the knowledge within the new venture to solve that problem. Only after these steps, it is possible to move on to the elaboration of a specific business plan and hopefully expand the radius of one's business. Successful entrepreneurs carry out a lot of research in order to find as much information as possible that could be useful for making strategic decisions . Not only do they invest over 200 hours (indicative) a year performing market research, but they actively interact with their customers and suppliers to quickly identify and resolve any issues.

Finally, as the last internal condition of the startup, the relationship between team founders and the presence of partners or professionals is highlighted.

[44] A.Osterwalder, Y.Pigneur (2010), *Business Model Generation*.

Although it is generally understood that the presence of experienced consultants has a positive influence on the startup's chances of success, entrepreneurs are reluctant to accept advice on management or strategy issues from someone external to the project. No matter how competent and prepared, the entrepreneurs who are directly involved in the project are often too absorbed by the business operations they carry out on a daily basis. For this reason, they do not notice the presence of problems, which instead are immediately evident to an external and objective eye. Even if the founding team realizes that they do not have all the necessary knowledge and that they have to resort to the advice of an expert, the process is soon stopped. As the need arises to find a consultant it is also problematic to find someone who does not require too onerous remuneration, which could undermine the already unstable cash flow of a start-up in the early stages. A valid compromise could consist in promising a remuneration as soon as the start-up will be able to pay it without compromising its financial stability, or in a payment through stock options, i.e. allowing external experts to become partners of the company, entering in its venture capital. The latter option, however, is often not appreciated by entrepreneurs, who fear losing control over what they perceive to be their "own" project.

Until now, the various factors encountered could be summarized in the following variables:

1. Capital and financial constraints,
2. Bookkeeping and financial control,
3. Managerial experience: knowledge of the sector, personal experience, planning,
4. Presence of professionals for advice,
5. Level of education, age of the owner, family legacy,
6. Psychological and attitudinal characteristics,
7. The team and the quality of the staff,
8. Marketing skills: timing of proposing the product or service, customer service and sensibility towards customers.

Therefore including variables relating to both the individual and the start-up, while neglecting the external environment.

Summing up, higher probabilities of failure appear to be associated with inadequate bookkeeping and financial controls, poor management experience, poor marketing skills, and lack of marketing experience. Furthermore, the lack of recourse to the formulation of real business plans and the advice of experienced professionals is linked to a greater probability of

failure of the company. If the owners have not undertaken academic education or fail to maintain reliable human resources, the chances of success of the project decrease. With regard to timing, companies that offer products that are too old or too new, or that start their business at the wrong time in the economic cycle, i.e. in a recession, are more likely to fail than the others.

Many are the debates related to which are the most relevant variables. Still without many doubts, there are some related to objective factors: bookkeeping and financial control, planning, advice from professional figures, the timing of the introduction of the product or service, the phase of the economic cycle and the age of the owner. The absence of some of them shall not worry, since it should be highlighted that the influence of some factors could have been absorbed by another, such as the presence of professional figures as directors, or the keeping of accounts, with which the availability of capital is correlated . In fact, it is highly probable that companies that keep their accounts in compliance with the standards shared in the business world and whose owners can count on the advice of expert people will also have greater ease in meeting the requirements necessary to obtain loans.

### 2.3 Startups' External Determinants

So far we have analyzed those factors, linked to the company or its founder, which exert a decisive influence on the probability of failure of the startup. In any case, even a company in which financial planning and production organization are excellent and whose founder has adequate training and experience will not be able to succeed if it finds itself operating in an institutional context hostile to entrepreneurship, as well as interacting with an excessively high level of competition.

The environment or ecosystem in which the start-up operates is therefore fundamental in determining its success or failure.[45] Inside the work "*Contextualizing Entrepreneurship*",
it is highlighted the importance of the historical, social and cultural context in order to fully understand the motivations that drive individuals to undertake their own entrepreneurial project.[46] Environmental conditions in general include the legal and institutional framework,

[45] T.Viki, D.Toma, E.Gons (2019), *The Corporate Startup*.
[46] F. Welter (2011), *Contextualizing Entrepreneurship- Conceptual Challenges and Ways Forward. Entrepreneurship Theory & Practice.*

the availability of skilled labor, the presence of suppliers, the degree of competition between companies and governments' policies. The presence of large urban areas or universities in the proximity of start-ups increases their chances of success (Welter, 2011).
Erik Stam and Andrew van de Ven summarize the characteristics of the enterprise ecosystem in several dimensions (Erik Stam, Andrew van de Ven, 2019):

1. policies and programs promoted by governments,
2. socio-economic conditions,
3. institutions providing business-related education,
4. financial assistance and non-financial assistance,

i.e. possibility to obtain consultancy, to join pre-existing networks of entrepreneurs, or to make use of the services offered by a business incubator.[47]

First of all, competition and the role of competitors shall be analyzed.
According to Neck and Murray, startups should avoid entering sectors dominated by one or more large companies, engaged in price-based competition, and should instead aspire to enter a more suitable business, in which they can best serve the customer needs (H. Neck, C. Neck, and E. Murray, 2019).[48]
Competition, as a pillar of economics itself, is the element that entrepreneurs will always face to some extent, no matter the degree of innovation or technology involved. For this reason, it is not the presence of competition but rather the difficulties that startups encounter in identifying their competitors. The presence of competition itself, on the contrary, can be interpreted as a sign of the good functioning of the market in which startups operate. The ventures' founders tend to perceive their company as unique and innovative, even if the differences with other companies on the market are not so marked, at least from the customers' point of view. For this reason, as explained in the previous section, it is important to be able to count on the advice of consultants or other external experts who are able to assess the market situation with an objective look.
For instance, the most important figures which provide such services are business angels and business incubators. The geographic presence or absence of business incubators or other equivalent effective programs to promote the development of entrepreneurship is fundamental. In particular, these business incubators should facilitate the formation of

[47] Erik Stam, Andrew van de Ven (2019), *Entrepreneurial ecosystem elements.*
[48] H. Neck, C. Neck, and E. Murray (2019). *Entrepreneurship - The practice and mindset*

networks of contacts both between the startups themselves and between startups and pre-existing companies in the area, thus favoring the insertion and integration of the first in the productive and social fabric existing at the local level.

The second element is that of the presence of banks or other investors.
The presence of numerous alternative sources of financing makes it easier to find funds to allocate to the implementation of the project. The passage of the company from the pre-seed and seed phase to the start-up phase is marked by the availability of capital.
Another important element linked to the external environment of the startup is given by human resources and the difficulty in finding figures with necessary skills for development. The first difficulty is given by the fact that there may not be a pool of human resources with these skills nearby the venture headquarters. For this reason, startups located in more developed regions where there is a strong research activity or know-how have an advantage. Highly skilled human resources usually require high remuneration, which the early stage startup is unable to pay on a regular basis without facing significant financial struggles. The hiring of university students or recent graduates at least partially solves this problem, as they are usually prepared and motivated people, other than economically more accessible. Furthermore, entrepreneurs may not be able to carry out an adequate selection process, as it is not within their competence. Also in this case, it can happen that entrepreneurs face psychological barriers, consisting in being reluctant to hire someone who is more trained or more competent than them, as they are afraid of losing control over his project.
Finally, the last factor is given by the importance of the environment.[49]
It is linked in particular to the possibility for the start-up to access a rich entrepreneurial ecosystem, i.e. to be constantly immersed in a favorable context, full of productive relationships and information exchange with other partner companies, with which it is possible to create networks. An ecosystem is considered favorable given the presence of state and regional support programs, together with the strong potential for innovation given by universities and polytechnics.
However, critical issues emerge regarding the accessibility of the ecosystem itself and its relevant information. To be able to make the most of it, newly established companies should immediately possess solid legal and administrative knowledge to extricate themselves from bureaucracy, but this scenario is unlikely. To conclude, it is important that the start-up can

[49] Erik Stam, Andrew van de Ven (2019), *Entrepreneurial ecosystem elements.*

count on the support of an incubator, at least in its early stages, in which the team that leads it is most likely unable to carry out all the tasks alone. On the other hand, in order to be able to grow further it may be necessary for the company to move its headquarters and move elsewhere, in search of a more stimulating business environment and a wider outlet market.
It is important that a startup is not excessively tied to the place where the original idea was born, for example, the city where the university where the founders completed their studies is located. The founders' team must be prepared to relocate in order to take full advantage of the opportunities of a larger market or a more entrepreneurial environment. Ideally, in fact, a startup should be located in a region where there are universities or universities of applied sciences, so as to have a large pool of qualified workforce. Furthermore, they should prefer a region where there are already many other startups and also many other companies belonging to the same sector. In this way, the possibility of creating valuable synergies that allow the exchange of knowledge and ideas and which therefore promote the development and expansion of the startup itself increases. Indeed, it is essential that startups engage in networking activities, i.e. the creation of a network of contacts with other companies active in the same sector, as well as with other players, such as suppliers, consumer associations or other groups of interest related to the outlet market.
Finally, it is also important that the company is located in an area in which the entrepreneurial culture is widespread and in general there is a favorable attitude towards innovative projects.

The discussion about the startups' external determinants is not yet finished as in the third and last chapter of this work a deeper analysis is carried out of the legal panorama featuring startups and the policies implemented in Italy.

## Chapter 3: The Italian Competitive Disadvantage

In an era defined by rapid technological advancements and continuous innovation, startups have emerged as pivotal actors in driving economic growth, technological progress, and employment opportunities. As these dynamic enterprises continue to reshape industries and disrupt traditional business models, countries around the world are competing to position themselves at the forefront of the startup industry. This chapter delves into the intricate landscape of startup legislation within the context of Italy, shedding light on the multifaceted challenges that have hindered the nation's ability to harness the full potential of its innovative entrepreneurs.

Historically renowned for its entrepreneurial ventures in sectors like automotive, fashion, manufacturing, design etc., Italy's industries carry the legacy of innovation and creativity. However, when it comes to the modernization of its legislative framework, Italy has often found itself caught in a paradox of embracing tradition while struggling to adapt to contemporary demands. This trend of lagging behind in updating its legal infrastructure to accommodate evolving economic paradigms has been particularly pronounced in the realm of startups. While other nations have proactively updated their regulations to provide an agile environment for startups to flourish, Italy's approach has been marked by incremental changes and a propensity to favor traditional economic sectors.

A closer examination reveals that Italy's current legal competitive disadvantage is rooted not only in the challenges of the present but also in a historical pattern of delayed legislative modernization. The intricacies of bureaucracy, combined with the influence of established industries and vested interests, have often impeded the swift implementation of laws conducive to startup growth. This historical disposition towards caution and incremental change has contributed to a fragmented and convoluted regulatory landscape, characterized by inconsistencies and inefficiencies that deter prospective entrepreneurs and investors alike.

One of the most glaring aspects of Italy's legal framework that exacerbates its competitive disadvantage is the lack of entrepreneur-friendly legislation. Unlike nations with streamlined startup regulations and tailored incentives, Italy's legal landscape remains unwieldy and not particularly user-friendly for entrepreneurs. Cumbersome administrative procedures, intricate

compliance requirements, and complex taxation structures contribute to an environment that is often seen as stifling for startups. These factors not only deter domestic entrepreneurs but also discourage foreign investors seeking a more seamless path to business establishment and growth.

Italy's taxation structure, in particular, has posed significant challenges for startups seeking to establish and grow their businesses. The complex web of taxes, including corporate income tax, value-added tax (VAT), social security contributions, and local taxes, has proven to be a significant burden on startups' financial resources and operational agility. Navigating this intricate tax landscape demands significant time and resources, diverting crucial capital and attention away from innovation and growth-oriented activities.
Unlike some of its global counterparts, Italy's taxation system lacks tailored provisions that recognize the unique financial needs and challenges of startups. Startup ecosystems in countries like the United States, the United Kingdom, and Singapore benefit from special tax incentives that encourage investment, research and development, and hiring. In contrast, Italy's taxation structure tends to treat startups on par with established corporations, thereby hindering their ability to allocate resources efficiently and invest in crucial areas for growth.

Compounding these challenges is Italy’s history of political instability, which has resulted in a lack of continuity in policymaking and regulatory reforms. Frequent changes in government and shifts in political agendas have led to a disjointed and inconsistent approach to legislative modernization. The resultant lack of long-term commitment to startup-friendly policies further contributes to Italy’s struggle to create an environment conducive to entrepreneurial success. This volatile political landscape not only undermines investor confidence but also hampers the nation’s ability to follow a coherent and efficient path towards nurturing its startup ecosystem.

The result can be seen as a disincentive for startups to innovate, expand, and ultimately contribute to the economy. Startups in Italy face a higher tax burden relative to their earnings, reducing their ability to reinvest in research, development, and talent acquisition. Moreover, the uncertainty and complexity surrounding tax compliance further discourage foreign investors from engaging with Italian startups, as the risk of unforeseen tax liabilities looms large.

Additionally, Italy’s late digitalization has emerged as a critical impediment to its startup legislation and ecosystem. While digital transformation has been a catalyst for innovation and economic growth globally, Italy has faced challenges in keeping up with the pace of digital advancements. The slow pace of digital adoption, both within government processes and across industries, has created a technological gap that affects the ability of startups to operate even more efficiently. This gap also extends to the regulatory framework, where outdated laws struggle to address the complexities of digital businesses and emerging technologies.

This chapter overviews the far-reaching implications of Italy's complex legislative structure on its startup ecosystem and the startup landscape. By analyzing how convoluted bureaucracy hampers startups' ability to allocate resources effectively and stifles their potential for growth, we intend to shed light on the systemic challenges that need to be addressed for Italy to become a more appealing destination for entrepreneurs and investors. By addressing the complexities of the legislative structure, Italy can aspire to create an environment where startups thrive, drive economic growth, and contribute to the nation's competitiveness in the global startup arena. Reforming the current legislation to better align with the unique needs of startups could serve as a catalyst for Italy's emergence as a dynamic hub for innovation and entrepreneurship.

### 3.1 The Italian Startup Jurisdiction

To introduce the Italian startup jurisdiction it is important to clarify that Italy functions as an insider financial system and operates under a civil law framework, as these two characteristics deeply determine the entire mechanisms of the state.
Italian primary legal sources encompass the 1942 Civil Code, the Legislative Decree N.58/1998 (as amended), and Consob.
Additionally to home legislation, there exists two other forms of regulations: the European Union principles and the optional Codes.
The Corporate Governance Code is adopted by many other states, it serves as a collection of recommendations in the form of ‘comply or explain’ rule.

While following the guidelines of the Second European Directive, a minimum share capital of 500,000 euros is mandatory when establishing a company.[50]

Around a decade ago, Italy lacked significant startup initiatives. Recognizing the need for action, the Italian government aimed to stimulate enduring economic growth, technological advancement, and specifically, the cultivation of a fresh business ethos centered around innovation. Further objectives included enhancing social mobility, generating employment opportunities for the youth, reinforcing university-industry relationships, and enhancing Italy's appeal to global capital and expertise. In pursuit of these goals, the government embarked on an extensive legislative process in 2012 to encourage the emergence and expansion of novel, technologically advanced creative enterprises.
This endeavor culminated in Decree-Law 179/2012, commonly referred to as "Decreto Crescita 2.0" ("Growth Decree 2.0"), later ratified as Law 221/2012.
A multitude of policy proposals put forth in "Restart, Italia!"2 - a report formulated by a 12-member expert task force appointed by the Minister of Economic Development in April 2012 - along with crowdsourced policy recommendations from key stakeholders within the Italian innovation ecosystem, found their way into Decree-Law 179/2012. This legislative act, known as "Italy's Startup Act" (ISA), introduced the concept of an "innovative startup," defining a pioneering firm with significant technological value within the Italian legal structure. This marked the first instance of establishing a comprehensive regulatory framework (articles 26-31) for such enterprises.

The realm of Italian company law lacks an appropriate framework tailored to startup enterprises. Within European business law, the distinction between public and private corporations stands as a longstanding concept. Member States exhibit variations in their chosen regulatory structures for governing these two categories of companies. For instance, certain countries like Germany and Austria adopt a dual-system approach, applying distinct legislative actions to private limited companies and public limited companies.

[50] Second European Directive: Directive 2001/97/EC of the European Parliament and of the Council of 4 December 2001 amending Council Directive 91/308/EEC on prevention of the use of the financial system for the purpose of money laundering - Commission Declaration.
Source: https://eurlex.europa.eu/legalcontent/EN/ALL/?uri=CELEX%3A32001L0097

Italian entrepreneurs who were familiar with or had experience in the Silicon Valley model faced significant challenges when seeking an equivalent to the Delaware corporation.[51] Although the Italian public company ('società per azioni', SPA) shared certain characteristics with the German 'Aktiengesellschaft' (AG) and the French 'société anonyme' (SA), which made it suitable for certain startup aspects, particularly financial flexibility, there were two primary barriers that hindered cash-strapped young startuppers from launching an SPA-based business: a mandatory minimum capital requirement of 50,000 euros and the obligatory inclusion of a three-member board of statutory auditors ('collegio sindacale'), resulting in a fixed annual expense of approximately 15,000 to 20,000 euros.

Consequently, this emerging class of startup entrepreneurs turned their attention back to the SRL, the structure akin to a family business. Nevertheless, even the traditional SRL could not address the demands of this new entrepreneurial class, mainly due to factors rooted in the history of company law in Continental Europe.

Several states explicitly differentiate between public and private enterprises, although they might integrate relevant laws into a singular code (e.g., France, Italy, Switzerland) or a consolidated act (Spain). In contrast, Nordic countries (Denmark, Finland, and Sweden) adopt a unified legal approach to regulate their largely uniform business model, following the precedent set by the common law system of the United Kingdom.

Initially, all companies were considered public due to their requirement for a royal charter or a unique parliamentary act for establishment. These companies typically sought funding from the public. The evolution of private firms came about with the dismantling of the concession system's limitations, leading to distinct private enterprises in Europe. A parallel legal structure exists in Italy, where the SPA (italian type of public company) possesses some financial autonomy, yet remains confined by stringent management and control standards, as well as European legal capital regulations.

Conversely, the SRL (private company type) grants significant managerial autonomy to the firm but lacks the design to serve as an investment vehicle, resulting in limited financial

[51] Paolo Giudici, Peter Agstner (2019), *Startups and Company Law: The Competitive Pressure of Delaware on Italy (and Europe?)*

contract flexibility. Consequently, the landscape of Italian corporate law finds itself in a state of disarray. The established dual model featuring both public companies and private enterprises is undergoing transformation through the subtle, yet progressive, erosion of the GmbH model[52]. This model was embraced by a majority of European countries during the late 19th and early 20th centuries.

- *The SRL innovativa*

The first attempt for a solution is given by the *SRL innovativa* (Società a Responsabilità Limitata Innovativa).

The "innovative start-up," also known as the innovative limited liability start-up (Società a responsabilità limitata innovativa), secures its registration within a distinct segment of the firms' register (Registro delle Imprese). This specific section is dedicated to accommodating innovative SRLs, a categorization attributed to the enterprise's forward-looking character and substantial technological value.

Distinguished as a youthful venture boasting significant technological worth and growth prospects, the innovative start-up assumes a pivotal role within Italy's industrial strategy.

Offering remarkable adaptability and substantial cost efficiency, the S.r.l. (Società a responsabilità limitata) emerges as a standout choice of business structure.

With a minimum capital requirement of 10,000 euros and exemption from the "collegio sindacale" mandate, the S.r.l. can possess capital ranging from a mere one euro to less than ten million euros. Given its distinctive attributes, both the administrative framework[53] and the provisions outlining specific rights for individual members can be adjusted to align with the prevailing circumstances in accordance with Article 2468 c.c..

- *The SRLS*

Another type of the previous SRL, can present an additional option for startup founders.

In 2012, the Italian government streamlined the *SRLS or Società a Responsabilità Limitata Semplificata*. Initially restricted to founders under 35 years old, this limitation was eventually

[52] GmbH model, or "Gesellschaft mit beschränkter Haftung" model is the German limited liability company, a widely used legal model for corporations. It is governed by directors, and has a minimum share capital of 25,000 euros. Its formation is not complicated, but it of course requires a deed of formation and articles of association established in the presence of a notary.

[53] The administrative framework can have such profiles: amministratore unico; c.d.a.; amministrazione pluripersonale congiuntiva o disgiuntiva.

removed. As a standardized template was mandated for incorporation, the associated fees were also kept minimal. The perceived benefits of this choice often outweigh their visibility.
The constitution of the S.r.l.s. heavily relies on a predefined model that excludes non-essential provisions. Its provisions are rigid and non-modifiable, a characteristic that contrasts with the flexibility usually linked with the S.r.l. business structure and regulatory inclusion.

Significant constraints on the selection of investing partners exist, as only natural persons can establish the S.r.l.s. The option to exclude quotes in favor of entities other than natural persons was introduced by the MiSE in a recent communication dated February 15th, 2016. For this to be operational, the term "simplified" (semplificata) must be eliminated from the organization's identification, adopting genuine and standard regulations instead. The governing rules consider a capital amount below ten thousand euros, yet the company must transition into a non-simplified S.r.l.
Given the nominal capital requirement, which must be at minimum one euro, the latter doesn't truly require a cost-saving measure.

- The Importance of the *Decreto Crescita 2.0*

Most of the Italian startup regulation was built on Decree-Law 179/2012 which introduced specific measures aimed at supporting these types of enterprises throughout their entire lifecycle - from inception to maturity. These provisions facilitated a strategy for sustainable growth and opened up new avenues for enterprise creation. The impetus for these measures arose from the pressing need for updated regulations that could foster technological innovation and, by extension, the digital economy.

The provisions encompassed within D.L. n. 179/2012, supplemented by D.L. n. 34/2020 Decree-Law n. 179 of 2012, established a comprehensive set of guidelines concerning the establishment and progression of innovative startups. These measures included a range of tax incentives, such as the exclusion of shell companies (società di comodo), relief from stamp duty payments, tax credits for new employee hires, as well as Irpef and Ires deductions for investors.[54]

[54] Irpef and Ires are two of the most important tax and accounting obligations. Irpef, the "Imposta sul Reddito delle Persone Fisiche", is the acronym for Personal Income Tax, and it is applied to the personal income produced by each individual; Ires, the "Imposta sul Reddito delle Società" is the income tax of Italian corporations.

Furthermore, the articles of association of accredited incubators and innovative startups could authorize the issuance of financial instruments with capital or administrative rights, excluding voting rights on shareholder decisions. Such issuance could be in exchange for contributions from shareholders or third parties, which might encompass work or services.

Finally, it is important to highlight that it is Section 9 art.25 of this decree which states the definition of innovative startup for the Italian jurisdiction, reported below.

Section IX, art. 25:

Art. 25 of the D.L 179/2012 states the prerequisites that an enterprise needs to have in order to be an innovative start-up:

"For the purposes of this Decree, the innovative start-up company, is the capital company, also constituted in cooperative form, whose shares or shares representing the share capital are not listed on a regulated market [...] having the following requirements:"

a) is formed by not more than sixty months;
b) is resident in Italy pursuant to Article 73 of Decree 917 of the President of the Republic of 22 December 1986, either in one of the Member States of the European Union or in States party to the Agreement on the European Economic Area, provided that it has a production site or a subsidiary in Italy;
c) from the second year of operation of the innovative start-up, the total value of the annual production, as shown in the last approved balance sheet within six months of the end of the financial year shall not exceed EUR 5 million;
d) does not distribute, and has not distributed, profits;
e) has as its exclusive or overriding object the development, production and marketing of innovative products or services of high technological value; (10)
f) it was not formed by a merger, a division of companies or a transfer of a company or a branch of a company;
g) has at least one of the following additional requirements:

1. The amount spent on R&D is equal to or more than 15% of the difference between the cost and the overall value of the product produced by the creative start-up. The R&D expenditure statement does not include costs associated with the acquisition or renting

Source: https://www.agenziaentrate.gov.it/portale/schede/pagamenti/imposte-sui-redditi/cosa-imposte-sui-redditi

of real estate. Spending on pre-competitive and competitive development, such as experimentation, prototyping, and business plan development, as well as spending related to incubation services provided by accredited incubators, as well as the gross costs of internal staff and external consultants employed in research and development activities, including members and administrators, are considered for this measure. The latest authorized budget is what determines expenditure, which is explained in the notes to the financial accounts. A statement issued by the legal representative of the innovative start-up assumes responsibility for their implementation in the absence of a balance sheet during the first year of operation;

2. Certified research activity at public or private research institutes, in Italy or abroad, that is, a percentage equal to or greater than two thirds of the total workforce, staff holding a master's degree, and employment as employees or collaborators in any capacity, equal to or greater than one third of the total workforce, staff holding a PhD or holding a PhD at an Italian or foreign university, or who have completed a degree and have completed at least three years.
3. is the owner, depositary, or licensee of at least one industrial right relating to an industrial invention. By biotechnological invention, it is meant a new plant variety or a semiconductor product's topography. It also meant holding rights to an original computer program registered with the Special Public Register for Computer Programs.

- The *Italian Startup Act* (ISA)

Numerous recommendations put forth in the "Restart, Italia!" report, authored by a task force of 12 experts appointed by the Minister of Economic Development in April 2012, has been incorporated into Decree-Law 179/2012.[55] Moreover, crowd-sourced policy suggestions stemming from extensive consultations within the Italian innovation ecosystem have also been included. This Decree, aptly termed "Italy's Startup Act" (ISA), introduced the concept of an "innovative startup," a novel and technologically advanced entity, into the Italian legal framework. For the first time, a comprehensive regulatory framework was established for such businesses, devoid of industry or age-specific constraints found in other national legislations. These new instruments and support measures encompass the entirety of the

[55] Luca de Angelis, Harvard Business School (2017),
*Italy and Startups: harnessing a country of innovators: A Policy Analysis of the Italian Startup Act and its effects on the Startup Ecosystem Luca de Angelis, Harvard Business School*

innovative startup's lifecycle, spanning from incorporation to growth, development, and maturity.

Over six years after its initiation, the ISA continues to captivate the interest of Italian entrepreneurs, boasting registration figures of over 10,000 startups.[56] When considering both dissolved companies and those that no longer meet the criteria for creative startups, this number escalates beyond 15,000. Comparative analysis of the developmental prospects and innovation inclination of affected businesses against similar entities that did not partake in this policy revealed a significant positive impact attributed to the ISA.

While the regulation has undergone various updates and enhancements over time, its fundamental principles have remained consistent. Alongside the ISA's structure, a series of recent rules have proven particularly advantageous for creative firms.

The latter set of rules targets innovative startups and newly established businesses closely linked to technological innovation. With no additional constraints in place, innovative enterprises have the freedom to operate across sectors. As outlined by the ISA, companies must meet specific criteria to qualify as innovative startups.

For the first time, incorporation becomes possible without the involvement of a public notary. The introduction of digitalized incorporation, free of costs, is a groundbreaking innovation in Italian company law. Apart from minor registration obligations, there are no special fees linked to the company's establishment. A considerable reduction in costs is evident when comparing the online procedure to the traditional notarial process. The entire operation takes place online, and the electronic signature guarantees the authenticity of the parties involved.

Furthermore, the bankruptcy process is streamlined and financially attainable for entrepreneurs, while recapitalization is also simplified. This gives startups the ability to extend their lifespan, a luxury not available to established entities. Enhanced access to the SMEs Guarantee Funds is facilitated by the Guarantee Fund for Small and Medium Enterprises, a government body that promotes credit access by offering guarantees on bank

[56] Menon, C., et al. (2018), *The evaluation of the Italian "Start-up Act"*, OECD Science, Technology and Industry Policy Papers, No. 54

loans. It provides a straightforward, cost-free, and direct avenue of support for innovative companies.

Many of the steps mentioned are being conducted with the right direction.
Still, the timing of the jurisdiction introducing them is too slow to appropriately fit the needs of Italian entrepreneurs in the startup industries.
It is clear the path followed by Italian law-makers: using the US Limited Liability Company (LLC) as a framework for a process of liberalization. Italy has indeed taken this very approach, though not through the introduction of a new business structure. Instead, the approach involves a transformation of an existing one - the 'società a responsabilità limitata' (SRL), which corresponds to the German GmbH.

### 3.2 Comparison with UK and US

It is fundamental to understand why the anglo-saxon jurisdiction is able to keep up higher levels of efficiency and development.

- US: LLC or Limited Liability Company

The Limited Liability Company (LLC) presents a fusion of corporate and partnership characteristics.[57] It is accessible in all 49 states, with Delaware being the preferred choice due to its advantageous legal provisions. Delaware's legal framework, which promotes contractual freedom, has significantly contributed to the successful establishment and funding of startups in Silicon Valley.
Different state legislations serve as the sources of law for LLCs. While organized akin to a corporation, its taxation resembles that of a partnership. Double taxation is avoided, as the company itself is not subject to taxation; rather, taxes on its income are independently paid by the owners. Investors benefit from limited liability.
Upon registration, LLCs acquire legal personality. The duration is capped at 30 years, and dissolution isn't problematic. Members can withdraw within a 6-month notice period. If one member leaves but the rest wish to continue the partnership's operations, they can do so without encountering involuntary dissolution concerns. Dissolution can occur upon a

[57] Klein, Coffee, Partnoy (2010), *Business Organization and Finance*, Foundation Press.

member's death, withdrawal followed by an inability of others to continue business, or in the event of bankruptcy.
Interests in LLCs are freely transferable, yet new members do not possess managerial rights alongside existing members.

- UK: Private Limited Company

In first place, it is important to remark on the strong identity of the English jurisdiction which always differentiated UK laws from the continental Europe ones. Eventually facing intense debate, the British option on corporate law stayed true to the uniform business model, with extremely lax capital requirements in comparison to its German counterparts and public and private companies being only variations of the fundamental structure.

In the United Kingdom, start-up enterprises often opt for the structure of private limited companies. In contrast to sole proprietorships or partnerships, a limited company possesses independent legal status. Consequently, it operates with a distinct framework and involves more intricate requisites, including distinct tax and legal responsibilities.
The most notable distinction between operating solo as a sole trader and establishing a limited company is the latter's unique legal status. A defining characteristic of a limited company is its incorporation and the issuance of shares to its shareholders.
Limited companies can be categorized as private or public entities. Unlike publicly traded companies, where shares are exchanged on the stock market, private limited companies do not publicly trade shares and are confined to a maximum of 50 shareholders.
Given that there's no obligatory minimum capital requirement for forming a limited company other than the issuance of at least one share, the majority of private limited businesses are small in scale. The initial share capital typically falls within the range of £100. As stated in the Companies Act, this type of business structure does have limits on the liability of its members: the "limited" aspect in the name of the PLC's business structure pertains to the constraint on shareholders' liability, which is confined solely to the extent of their ownership in company shares. For a PLC, the avenue of raising capital is accessible through the sale of company shares, facilitating growth. The liability of investors is confined to the value of their owned shares, thus providing safeguarding against the company's insolvency.
The company's name enjoys protection upon incorporation, rendering it unlawful for other enterprises to engage in trade under the same or a confusingly similar name.

Finally, dealing with other businesses, the startup might find it necessary to function as a limited company in order to offer products and services to other entities. This is due to the fact that the majority of larger corporations are hesitant to engage with unincorporated businesses.

### 3.3 Startup policy Recommendations

The current policy landscape has achieved remarkable success in encouraging more firms to become startups, yet there's a need for further progress on enhancing system efficiency.
Evidence supports that the job is not finished, the government should insist strengthening and encouraging the startup industry through:

1. Retain and strengthen existing effective policy tools, specifically the reduction of bureaucratic obstacles, initial tax incentives, and targeted labor regulations, which have proven to be transformative factors.

2. Gradually expand the definition of a startup, either by encompassing more new companies or extending the time frame. The private sector will be adept at distinguishing worthy investment prospects from those that are not. In 2014, the government forewent approximately €10 million in tax incentive revenues tied to the startup definition, whereas guarantees were extended for around €270 million. A cost-effective approach could involve broadening the definition at the expense of debt guarantees.

3. Initiate a government-sponsored international accelerator program, run in collaboration with the private sector. This program would leverage international credibility, enhance the entrepreneurial skill set of Italian business owners, and provide access to global networks and funding opportunities.

A comprehensive liberalization of corporate structures is necessary.
The Italian jurisdiction can build upon the work done with the SRL and align with the direction set by the Italian reforms between 2012 and 2017. This approach should enhance

financial flexibility by revising rules related to capital formation, thereby facilitating the implementation of work-for-equity and vesting arrangements. Additionally, it should loosen the regulations governing debt instruments, making convertible notes a realistic choice that can attract Family, Friends, and Fools (FFFs) as well as angel investors.
The inclusion of a strong policy statement is of much greater importance. This statement would establish an explicit guideline for interpreting the company's constitutional documents and shareholder agreements.

Of even greater significance is the incorporation of a robust policy statement. This statement would establish an explicit guideline for interpreting the company's constitutional documents and shareholder agreements.

Competition arises from Delaware as it is the more efficient standard above all.
The interpretation of the American provisions seems to remain influenced by the prevalent inclination of Continental European jurists. Particularly within Italy, law-makers establish mandatory provisions through doctrinal legal reasoning, unfit for pure entrepreneurial productivity. These provisions harm the need for fluid and smart protocols of entrepreneurs. Would be more effective to implement a guiding principle that stipulates if a provision is expressly mandatory or not. The adoption of more default provision would grant contracting parties the freedom to modify it according to their preferences. These measures would effectively finalize the reform and transform the Italian SRL into an empowering tool for VC transactions, other than making it more appealing for businesses in general.
It is still a chance for Italian jurisdiction to create a business structure alternative which follows exactly the US' LLC. In this way, entrepreneurs could enjoy limited liability and the possibility to build their relations at will. Only in this way, all the traditional juridical doctrines and typical Italian slow modus operandi would be avoided.
Would be logical to think that this chance is not even taken into account by the Italian government. Looking at how many years have already passed since the startup legislation debate started, this hypothesis would have been already implemented.

## Conclusions

From what emerged from this work carried out on the of Italian start-ups' failure factors, there are many areas in which it is necessary to make a radical structural and strategic change in order to increase the probability of success of new technology-intensive business ventures: be it the entrepreneurs' personal maturity and awareness as a man and as a businessman; be it the entrepreneurial industry and culture of the Italian peninsula.

To give life to this evolutionary path, a combined strategy of political bodies and private initiatives should be implemented, as reported internally in the last two chapters of the thesis. Investments shall be disposed of in order to encourage the adoption of an adequate and effective regulatory treatment for strengthening the survival capacity of innovative start-ups, and consequently their relevance within the national and international economic fabric.

As underlined in chapter two, it is necessary for Italy to promote an avant-garde entrepreneurial culture, not only based on the idea of creating high quality manufactured goods but also based on a fair trade between managerial and financial knowledge.
This last concept is essential in order to guarantee national start-ups to become familiar with the management of national and international economics dynamics and shocks who daily question their existence.
Three categories have been discussed that should be taken into consideration to avoid at least the most superficial failure factors of business ventures:

1. The first concerns the personal sphere of the founder entrepreneur.
2. The second includes all those components which are instead traceable internally within the boundaries of the company
3. The factors that can be placed outside the structural core of the start-up: national legislation, macroeconomic influences, ecosystems around the startup…

This work comprehends many factors to pay attention to, as a startup founder, that could seem complex to approach and manage. For sure, it is complex to create a favorable context for the growth of innovative start-ups, as it requires to completely replace operating paradigms deeply rooted in the Italian entrepreneurial culture.

To thrive in a fiercely competitive global market without geographical borders, it becomes imperative to revamp the core beliefs and operational approaches of the national entrepreneurial sector.
Without a thorough modernization effort, the pace of Italy's advancement is at risk of progressively slowing down in comparison to the rapid progress seen in our primary competitors. This, in turn, would contribute to widening the structural gap that currently separates our emerging enterprises from the more established European and global startup ecosystems.
In this regard, starting from the assumption that Italy has the ability to be one of the main leaders of world progress, it would be necessary to stimulate the growth of new technologically intensive organizations through the adoption of specific legislation and other initiatives presented during the last chapter of this paper, in favor of innovative start-ups.

It is mandatory to keep track of the vitality that has recently propelled the growth of numerous European and international nations, which are transforming their startups into catalysts for domestic technological advancement. Some examples are Sweden, the Netherlands, the United Kingdom, Israel, and Singapore. Simultaneously, the distinctive features that define Italy's innovation landscape give evidence of substantial untapped potential for the growth of Italian innovative startups.

Certainly, the implementation of a growth process can only come to life through great interaction of all the parties who operate and directly affect the health of the ecosystem of these organizations. In all of this scenario, the state intervention is essential to provide the incipit of this process.
In order to have more chances to get this process started, every party involved must recognize startups, as social and economic reality, the role of being the main source of technological development in all its possible forms.
Only through the awareness of startups' importance and attention to their survival it will be possible to succeed.

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