

Italia Startup Association: The Italian Startup Ecosystem*

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Abstract

The challenge that Italy is facing in the last years is how to foster the development of its innovative industrial ecosystem in order to become a point of reference within the main innovation global players. The goal is exciting and day after day an increasing number of actors in Italy is actively working in creating the environmental conditions necessary to help the technological rebirth of our Country starting right from innovative start-ups. In this scenario a key role is played by Italia Start-up, the Italian Start-up Association founded in 2012. Specifically, the Association represents all the actors of the Italian start-up ecosystem and actively promotes the networking among its members that, scattered throughout the peninsula, are the driving force for technological breakthrough of our Country.

Keywords: Start-Up; Italian Start-Up Ecosystem; Innovation; Open Innovation; Global Markets

1. Ecosystem Innovation

With the main goal to foster the Italian technological development and the youth employment, the Italian Government issued a few years ago the De'Further urgent measures for Italy's economic growth', also known as 'Growth Decree 2.0'). The Decree represents an absolute novelty in the Italian legislation, because for the first time the definition of a new innovative enterprise - the 'innovative start-up' - was formally introduced:

“An innovative start-up is a company with shared capital (i.e. limited companies), or a cooperative, whose capital shares are neither listed on a regulated market nor on a multilateral negotiation system” (DL 18 ottobre 2012, n. 179).

By formally introducing this definition, the Decree also helps in better defining the priorities for boosting the Italian start-up ecosystem that consists of various actors, such as start-ups, incubators, accelerators, investors, enablers and all those realities that are promoting innovation and entrepreneurial culture.

Nevertheless, the interest that this issue is receiving from practitioners and policy

* Invited Article

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makers, the Italian technological development is still facing various problems. The main barriers/challenges that our Country need to address – specifically if/when compared to the other European Countries - are first of all related to the limited availability of investments in the field of innovative start-ups and second to the lack of a proper entrepreneurial education.

In addition to this, the Italian industrial ecosystem is mainly characterized by small and medium enterprises (SME) and the lack of large corporations, and/or foreign multinational companies/global players willing to invest a large amount of money in innovative new business idea in our Country, hinders the above-mentioned breakthrough that our economy needs to ‘re-start’ its growth.

Despite these adverse conditions, the Italian innovation ecosystem is actively dealing with these challenges/obstacles and does not give up. In this scenario, the worldwide emerging concept of Open Innovation could play an important role.

Italia Start-up, by supporting the Italian start-up ecosystem, is actively promoting this ‘new wave/acceptation’ of innovation. It is specifically related to the R&D management, that along with an adequate training at all corporate levels, is now to be considered as one of the most important keystone for the technological rebirth of our economy.

2. Italia Start-up. The Italian Start-up Association

2.1 The Mission

Italia Start-up is the non-profit Italian Start-up Association that brings together and represents the young innovative companies with high level of potential growth (start-up) and all those, individuals, institutions, incubators/accelerators, investors, companies and enablers subjects, involved in any way to facilitate, support or manage start-up initiatives.

Founded in 2012, the Association has now more than 1,700 members splitted into the following categories: individuals, start-ups (divided into seed and consolidated ones), incubators/ accelerators, investors, enablers and mature companies.

The main actions/efforts of the Association are directed to:

- spread the passion of doing business and promote the entrepreneurial culture in order to boost the competitiveness of the whole Italian innovation ecosystem;
- support those individuals who are starting or aim at initiating an entrepreneurial activity;
- involve those actors who could or would invest in start-up, first of all the mature companies;
- enhance the Italian innovative start-ups, by bringing them closer to the consolidated Italian industry, as well as by introducing them to international and domestic investors;
- promote youth employment.

To relaunch the Italian economy through the start-ups means to support the creative and innovative part of the Country. New reforms are welcome, but first of all we need to remove many of the barriers that still exist and hinder the

development of new companies in different industries and territories. By promoting start-up creation and growth it is also possible to enhance the competitiveness of our Country at international level.

2.2 Association Activities: Priority Focus

Institutional relations

Italia Start-up represents the innovative start-up ecosystem to the institutions. The Association maintains an open channel of dialogue between those who are trying to do business and policy makers both at central and local level with the aim of having a simplified legislative framework favorable to start-ups and to those who want to invest in venture capital.

International development

In addition to support the growth of start-ups in Italy, the Association also promotes their internationalization process in Europe and around the world. Italia Start-up also aims to have both short-term projects (missions abroad to introduce the most promising Italian start-up) and medium-term (local stable presence in the most advanced countries to foster ongoing cooperative relationships).

Ecosystem: mapping and qualification

A map, on the Italia Start-up website - namely "Who is who" - describes the Italian geography of innovation to enhance start-ups creation, accelerators/incubators and innovation centers in each area and to make possible for anyone to know these realities.

Matching between start-ups and corporations: Open Innovation

The slogan of the Association is "Make big the innovative companies and innovative the big companies". This sentence summarizes one of the main objective of Italia Start-up that is to connect the world of start-ups with mature companies to allow contamination of models, trade in services, know-how and innovation between the parties, as well as to facilitate investment opportunities through a scouting activity. This goal is fundamental in a country like Italy which is the fifth producer of manufacturing goods worldwide, with the possibility – thanks also to the innovative start-ups – to bring innovation in products and in processes.

For the definition of models regarding Open Innovation and the ways for large companies to invest in start-ups (Corporate Venture Capital) an Industry Advisory Board was established. It is composed by representatives of major and multinational Italian companies interested in investing in innovative start-ups. An important document, realized thanks to the exchange of opinions and experiences of the table components, will be presented in the incoming months.

Education, communication and events

Taylored communication and brief training paths are organized in order to promote the entrepreneurial and innovation culture mainly focusing on young people and – more in general - on those who are interested in this field. To mention a few, for example a series of educational meetings, have been organized in many associated incubators, where associated notaries, lawyers and accountants provide to the participants their knowledge and experience in the field.

The Association website, the communication through social channels, the press office and the organization of public events are also important tools to give

visibility to the start-ups and to the entire innovation ecosystem.

3. Italian Start-up Ecosystem. A Global Overview

To provide an overview of the Italian start-up ecosystem, we summarize a few data from the 'Quarterly report – special section of Italian start-up register' powered by Infocamere. At the 1st April 2016 the number of innovative start-ups filed in the Business Register was 5,439; an increase of +5.8% compared to the end of December last year. In absolute terms, Lombardy is the region with the largest number of innovative start-ups: 1,183 (21.8% of the total amount of Italian start-ups). Followed by Emilia-Romagna with 625 start-ups (11.5 %), Lazio 548 (10.1%), Veneto 404 (7.4%) and Piemonte 365 (6.7%). At the bottom of the list, there are Basilicata, Molise and Valle D'Aosta with less than 50 start-ups each.

When referring to provinces, Milan is the province that hosts the largest number of innovative start-ups: 802, accounting for 14.8% of total. Followed by Rome with 475 (8.7 %), Turin 273 (5%), Naples 172 (3.2%) and Bologna 154 (2.8 %). More than a hundred start-ups – each one - are also located in the provinces of Florence, Modena, Trento, Bari and Brescia. As regards the amount of investments in start-ups, in 2015, they reached a volume of 133 million euros; an increase of +11% compared to 2014. Data is derived from the Observatory Start-up Hi-Tech-Annual Report 2015, promoted by Italia Start-up and Observatory.net Digital Innovation of the School of Management of Politecnico of Milan.

The increase is mainly due to projects of non-institutional investors (+32%) compared with a decrease of funds from institutional investors (-8%). In particular, they moved from 57 million to 75 million euros by non-institutional investors such as venture incubator, family office, club deal and business angels. Remains substantially unchanged, the territorial distribution of investments: start-ups located in the North collect more than half of the total (54%), followed by the centre (30%) and then those in the south and in the islands (16%). By considering the sector, the ICT industry still covers more than two-thirds of the funded start-ups. But also it confirms the active segment of the start-up involved in the "life sciences", reaching almost 20% and the segment "cleantech & energy", and renewable energy which accounts for nearly 10%.

If compared to other European developed countries, the volume of Italian investments in innovative start-ups is very small: the investments in venture capital in France and Germany are about ten times higher than in Italy, while in Spain are about double. The Great Britain, then, has invested more than 20 times more compared to our Country, thanks first of all to favorable tax policies for investors in innovative start-ups, and then because of the inflow of capital from from foreing countries, particularly from the United States.

However, the Italian government has recently introduced important tax measures to promote the creation and the grow of innovative start-ups. With the aim of strengthening the investment market in venture capital, the Italian legislation includes, among other measures, the article number 29 of the Decree 2.0 Growth of 2012 which provides - for individuals who invest in innovative start-ups - a deduction from gross income equal to 19% of the amount invested, up to a

maximum amount of 500 thousand euros. The company is instead granted a deduction from taxable income of 20% of the sum invested in the innovative start-up capital, for a maximum amount of 1.8 million euro. For investments in innovative start-ups with a social vocation, or who develop and exclusively commercialize innovative products or services with high technological value in the energy field, the deduction rate for individuals is increased up to 25% and the rate of deduction for companies is increased to 27%. The figures for the first year of operation - the only currently available - provide encouraging signs: in 2013, the year in which the innovative start-up audience was still very low, taxpayers between individuals and companies that have invested resources were equal to 28,2 million euro, in 463 innovative start-ups.

In order to facilitate the access to finance for innovative start-ups in the form of a public guarantee for loans granted by banks, the government introduced the Guarantee Fund. As regard to innovative start-ups and certificated incubators, the Fund intervenes to a free coverage of 80% of the credit provided by the bank and without making further checks of creditworthiness compared to those made by lenders: preferential access that is being translated very robust metrics. At the end of 2015 the number of debit loans granted to innovative start-ups was 1,054. 711 are the innovative start-ups that have received loans. The total amount of funding received is slightly less than 290 million euro, of which approximately 225 million guaranteed by the state. The average amount of loans received is approximately 275.000 euros and the average term of the loans facilitated by the state fund is 55 months, or almost 5 years. The most representative size class, for the period (September 2013-December 2015), is related to financing with the monetary value of between 100 thousand and 300 thousand euros (32.2% of the total). Loans exceeding 500 thousand euros cover 13% of total loans guaranteed by the Fund, the most senior levels of the million 7%.

In addition, with a provision of 2013 (Decree Law No. 145), later modified by a law in 2014 (article 1, paragraph 35 of the Law of 23 December 2014, No. 190) the Italian government provides a new credit tax for investments in research and development in the period between 2015/2019. The credit is granted for investments going beyond the minimum spending limit of 30,000 euros in the tax year for which you intend to use the subsidy. Beneficiaries of the intervention are all companies, regardless of the legal form, the economic sector in which they operate, as well as the adopted accounting regime. They can also benefit from the facilitation of non-commercial entities, consortia and business networks. The people, under insolvency procedures aimed at the continued operation of economic activity, are also eligible. The benefit is calculated on the incremental value of R&D expenses recorded in each of the tax years 2015/2019 to which you plan to claim the benefit compared to the average annual expenditure in the three-year period 2012/2014 and it is recognized in the measure 25 % or 50% in relation to the type of eligible costs. An additional very important aspect for the start-ups is the novelty related to the so-called research 'extramoenia': indeed, the investment in research contracts with universities, research institutes, similar establishments with and also with other enterprises, including innovative start-ups, are relieved, equal to 50% of incremental spending. This measure is clearly favoured in relation to the so-called 'Corporate Venture Capital' or 'Open Innovation' since it promotes the

investment by mature businesses into innovative start-ups for process and especially product innovation as it comes to R&D.

4. The Concept of Open Innovation and its Benefits to the Italian Start-up Ecosystem

“Most innovation fail. And companies that don’t innovate fails”.

With these words begins the book “Open innovation. The new imperative for creating and profiting from technology” written by the father of the concept of Open Innovation Henry Chesbrough and published by Harvard Business School Press in 2003. In this book Open Innovation is defined as follows:

“Open Innovation is the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively. Open Innovation is a paradigm that assumes that firms can and should use external ideas as well as internal ideas, and internal and external paths to markets, as they look to advance their technology (...)”.

Since 2003, the concept of Open Innovation is animating the debate within the experts because, for the first time, was reviewed the way by which the large companies were facing the management of R&D activities.

Nowadays, this innovative vision of proceeding provided an important turning point in the organization of a company that decides to approach this new organizational challenge. Looking out for innovation, indeed, makes possible the encounter between the mature corporates and the technological progress brought forward from innovative start-ups. An essential factor for the success of this change lies, primarily, in the formation of those who will have to deal this kind of activities. In Italy, the culture related to the Open Innovation is not so diffused as in U.K. or in the U.S.A., but there are some players, such as incubators, that are trying to spread this “culture” also in our Country.

As above-mentioned, also Italia Start-up is betting hard on this point because this new form of collaboration between consolidated firms and innovative start-up brings many economic benefits for both the parties involved: on the one hand mature companies can diversify their internal process or renew their products and meet solutions that would be difficult to achieve internally and, on the other hand, the start-ups involved can find a new market (new potential customers) for their solutions or a support for the production of their new tools.

5. Conclusion

As shown above, nevertheless the strong commitment of the Italian government, the Italian start-up ecosystem, has still to face several challenges such as:

- become more appealing for foreign investors; in this regards a more favorable legislation in order to attract larger amount of foreign investments could help on this purpose;

- improve the linkages and the cooperation between mature companies and start-ups for creating the conditions helpful for the diffusion of the Open Innovation culture and practices;
- multiply the actions in order to encourage the equity investments in innovative start-ups.

In the current scenario, Italia Start-up is very confident that the effort pursuit at institutional level would encourage a sustainable technological development of our Country in order to make Italy more competitive at international level and create the conditions for new job creation and youth employment. In this respect, Italia Start-up aims at becoming the landmark and the connector for all the Italian start-ups and for all the actors that are part of the Italian start-up ecosystem. By fostering partnerships through specific projects and collaboration between regions we aim at creating the conditions that would help start-up to grow and scale-up at international level.

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