The Startup Performance Disadvantage in Europe: Evidence from Startups Migrating to the U.S.

Stefan Weik*

1. Paper in a nutshell

- Paper analyzes **European startup migration to the U.S**.
- Uses positive sorting in migration as identification strategy.
- U.S. migrants **get more VC funding**, innovate more, and achieve bigger scale at exit.
- U.S. migrants, **do not increase revenue** for years, **incur higher losses**, and no higher exit likelihood.
- U.S. funding advantage explains majority of innovation and scale differences.
- Suggests European VC funding market is the main obstacle to startup performance (rather than its product and exit markets).

2. Motivation

- The "Trillion-Dollar-Question" [Peter Thiel]: **Why no Silicon Valley and no Big Tech firms in Europe?**
- **Europe is largely missing out** on innovation:
  - 8 of 10 of world's top companies are VC-backed US/Asian tech firms (0 from Europe)
  - Europe also lags at producing "Unicorns": 51% US, 31% Asia, 13% Europe (in 2021)
- **But no systematic** evidence on European disadvantages at startup performance

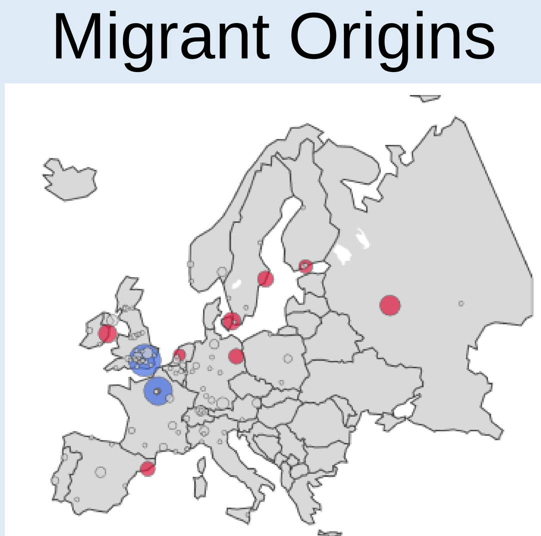
3. Empirical strategy

- Compare performance of migrants and stayers
- Due to positive selection into migration, comparison gives an **upper bound** of the US effect on startups

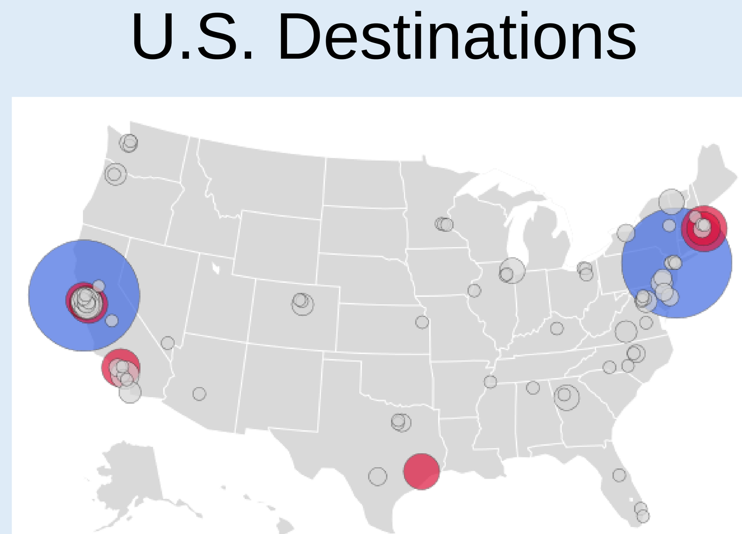
4. Data

- Hand-collected startups from 17 European countries
- 11,066 startups, 555 (5%) move to US ("Migrants")

Migrant Origins



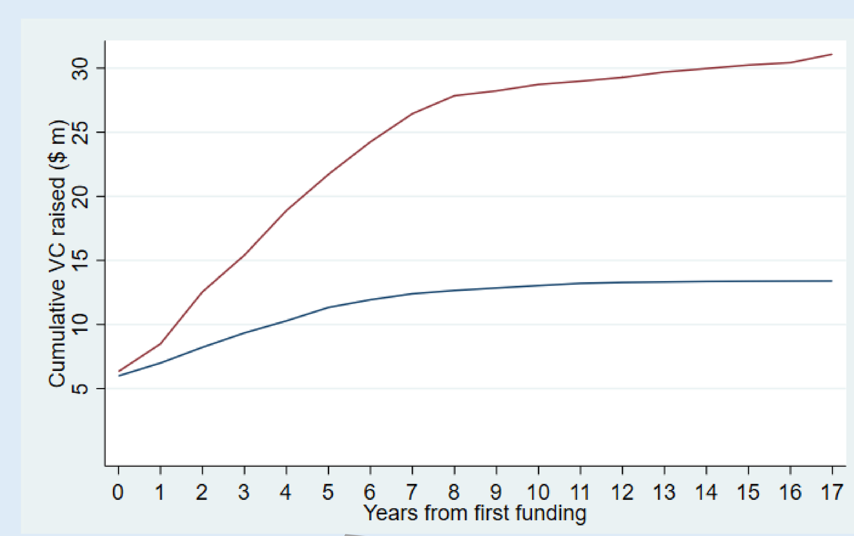
U.S. Destinations



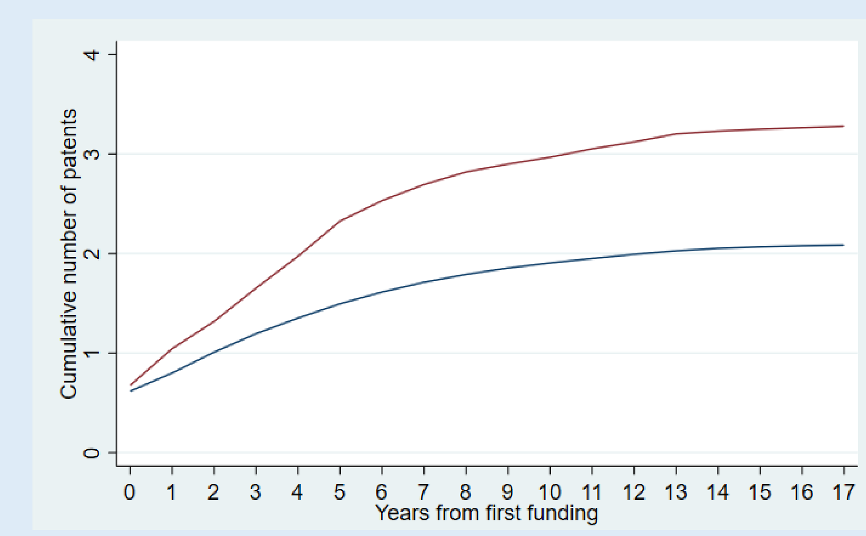
5. Results

Startup stays in Europe
Startup moves to US

Venture capital (VC) funding

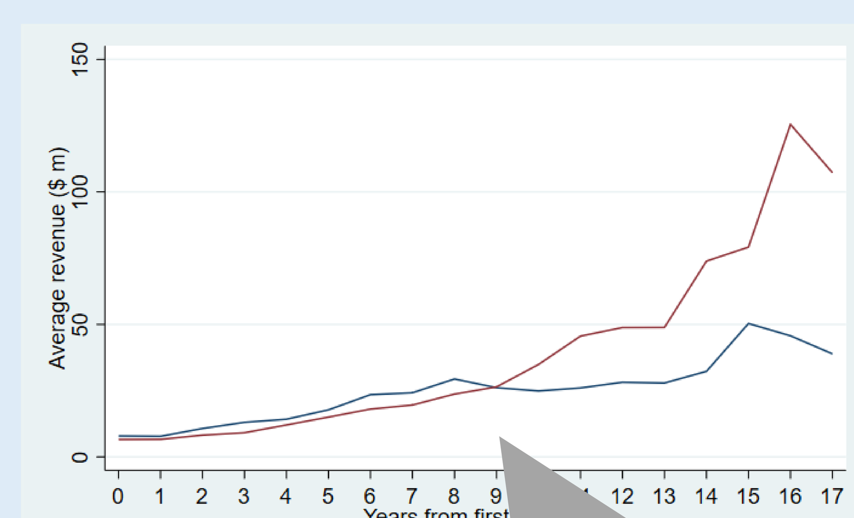


Patents

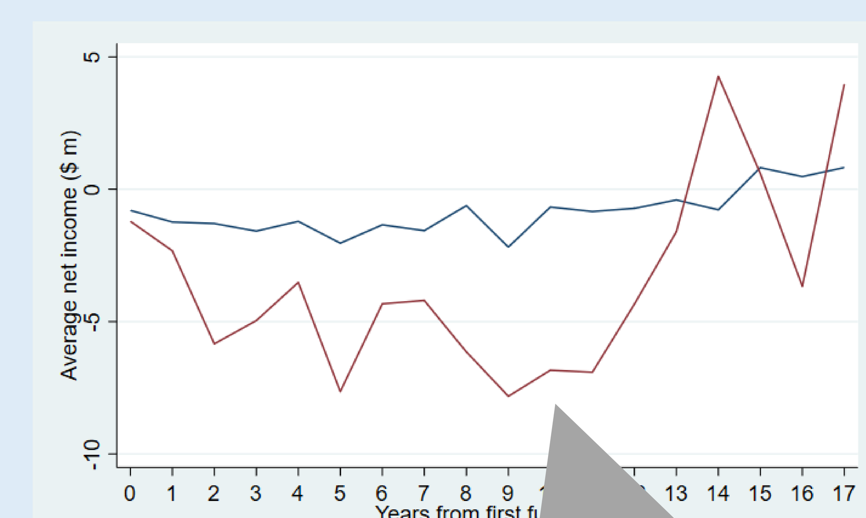


- ➢U.S. migrants move between 0-1 years after first funding (median)
- ➢U.S. migrants raise much more VC (3 times) by year 8 after first VC

Revenue

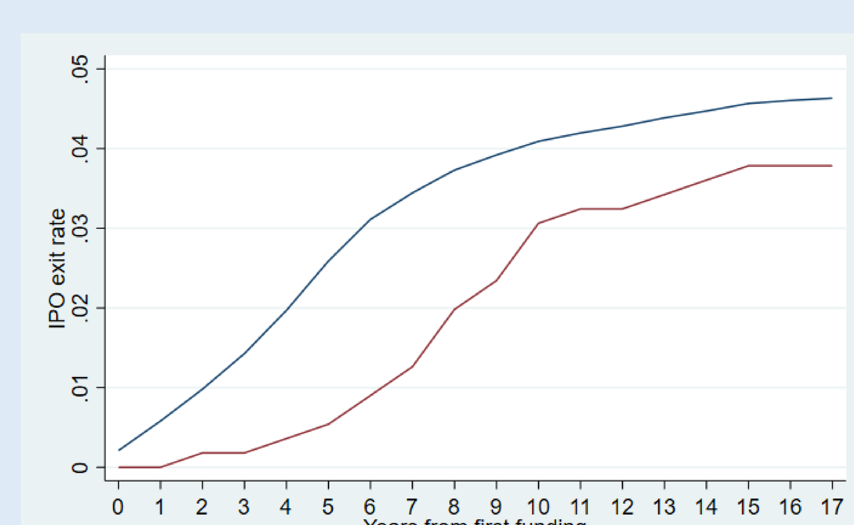


Net income (loss)

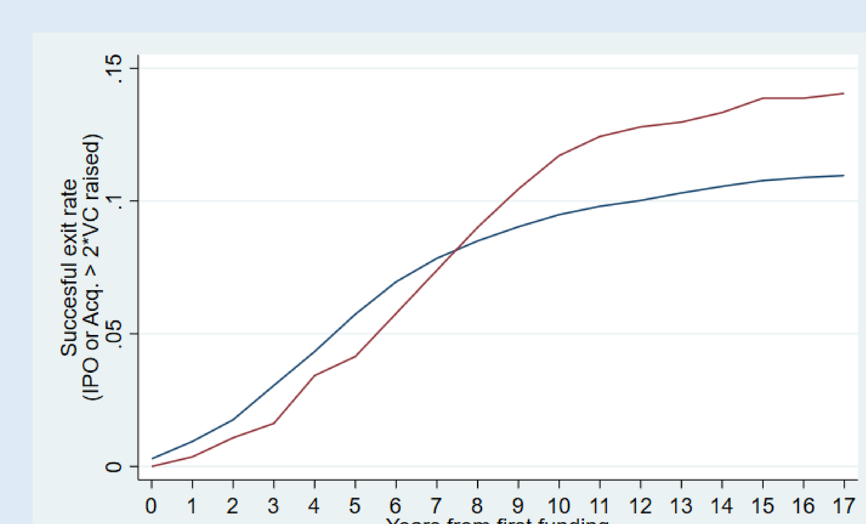


- ➢Surprisingly, no revenue effect until at least 8 years after migration
- ➢U.S. migrants experience much higher losses (deeper "J-Curve")

IPO



Successful exit (IPO or Acq.)



- ➢U.S. migration does not increase likelihood to reach IPO exit

6. What did we learn?

- Main startup disadvantage in Europe is **less funding** - and **lower tolerance for losses**
- **Product and exit markets** do **not hinder** European startup development much, if at all
- **Important for policymakers**: boosting European entrepreneurship is **more straightforward** than previously thought – instead of efforts across markets, focus on understanding issues in VC market

*** Technische Universität München (TUM) - TUM School of Management**
Email: stefan.weik@tum.de

Technische Universität München