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

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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”)

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

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