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'New Economy'?
A focus on Organisation in the Start-Up Scene in Berlin

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Introduction

Somewhat against the odds, there has been a noticeable boom in the 'New Economy' scene in Berlin at the turn of the century. Successful **Internet Start-Ups** and **new organisations and networks** around the New Economy seem to illustrate the speed and the potential of a new development, which accompanies the move of Berlin into Germany's new capital. In the broader focus, **Berlin City** is stuck in serious economic crisis. A rather inadequate or lacking industrial basis is only one point in the complex process of re-unifying the divided cities of Berlin, East and West. Compared to the established and economically leading regions in Germany, the position of Berlin is still absolutely difficult. What is interesting about the recent Start-Up movement in Berlin is therefore not the quantitative side. Meanwhile, the critical development of the stock markets has taken the place of the initial expansion, and has also brought the public mood down to earth.

Seen from an analytical point of view, the development around the new economy is interesting as a chance to examine the process around E-Business, but also because the phenomenon of 'new economy' is used in the debate in Germany, like everywhere else, to discuss the nature of the economic system that is already there.

So the focus of this paper is on the 'new economy' in Berlin, seen in **the perspective of the German economic model as a whole**. In the scene of the 'new economy', actors and institutions begin to fill out functions that have been discussed in scientific and public debate as weak points in the German economic system. A shortcoming of 'shareholder' orientation and a lack of mobility in the strongly 'stakeholder' based German model? What is perceptible in the recent process in Berlin is on the one hand **a highly mobile Venture Capital scene**, willing to high-risk investments and carrying the role of supporting new firms. On the other hand, there are private persons, willing and professional enough to carry the founding of **small, innovative firms in new sectors** of industry and services. Among these a new generation of entrepreneurs exploring the potentials of the Internet.

In January 2001, I conducted a number of **interviews** in Berlin with the overall purpose of getting a closer understanding of the background and the proportions of this development.

The interview persons were **different types of actors of the New Economy scene**, and the research was directed towards the nature of 'the new organisations, networks and institutions' as well as the change between 'new' and 'old' economy. As a discursive dimension, the question of how the actors themselves reflected and explained the situation in Berlin provides an opportunity to compare to other parts of Germany. Some of the institutions and new organisational networks in Berlin operate countrywide or have parallels in a number of other cities. All the interview persons selected had a close relation to **new institutions, organisations or networks**.

In the context of this paper, the examination of the New Economy Scene in Berlin does not aim at evaluating the constitution of the existing institutions in the German economic model, nor does it give assessment of their future viability. Frequent attacks in international analyses have diagnosed institutional barriers against the globalisation and a need for regular systemic reforms of the specific German institutional model. At a first glance, the innovation carried out by the actors of the new economy scene might occur as a drive towards the more 'de-regulated' Anglo-saxon models, as often advertised in neo-liberal advice. But what are the dimensions of these emerging new organisations? The new actors, organisations and networks in and around the Start-Up scene may indicate basically new needs for organisations, but do they really refer to structural weakness in the established institutional system? The analytical framework in this paper includes parts of the general comparative theory on 'national systems of innovation' and **current theoretical discussion on the German model**, also the contrasting to the Anglo-saxon models, but in a typological sense without the ambition of a general assessment. The main purpose of the research has been to take a closer look at the dimensions of the recent development of the innovative Start-up scene in Berlin, seen as a phenomenon in Germany. The perspective needed for this is the general debate during the last decade about the German model.

The interviews from Berlin are the start of a work in progress, and the current edition of this paper is a preliminary version, which gives a first presentation of both the framework discussion and the organisations interviewed. The analytical variables will be developed further in a later version.

The presentation in this paper starts in *section 2* with an attempt to clarify the term ‘**new economy**’ and *section 3* gives an overview on recent theoretical discussion of the traditional **German model**. In *section 4*, the results of the interviews are presented and discussed under the overall theme of: ‘**The role of new institutions, organisations and networks in the New Economy Scene**’. *Section 5* gives a short conclusion.

The term ‘New economy’

In the following I shortly summarise recent discussion and definitions to the term of ‘New Economy’. This short exercise is mainly based on a brief overview given by the German media researcher Stefan Krempl (2001)¹. As the next step this introductory exercise is related to the overall theoretical perspective of economic-sociological discussion on the whole of the German model.

The general term ‘New Economy’ both has a narrow ‘**microeconomic**’ definition and one with a broader **macroeconomic** and societal perspective. In the microeconomic definition given by stock markets themselves, ‘New Economy’ simply terms the **High-Technology Sector**, defined as the sectors of Information- and Communication-, Bio-, Gene- and Medical Technology, and also all firms that base their activity on high-technology, like ‘e-commerce’². In this narrow microeconomic sense, ‘new economy’ would be simply the firms of the High-Tech-Sector and the Internet Start-Ups, of which only a smaller part is traded on the stock markets. It belongs in the definition that these new markets are separated out because of the extraordinary high rates of financial exchange and speed of technological change.

Beside this, there is the more basic and a large-scale perspective in both public and scientific debate, promoted first of all by US-American analysts and discussing the question of **a new macroeconomic model or economic theory**. This macroeconomic perspective focuses on **the extraordinary development of the US-American economy** during the last decade, which was characterised by a relatively stable high-growth level, apparently without inflation and cyclical fluctuations. This is the longest period in history so far, and has thus given rise to expectations of a ‘new economic paradigm’. ‘Productivity’ is

¹ Krempl’s presentation is available on the internet: <http://viadrina.euv-frankfurt-o.de>

² Schwarz, Gerhard: Auf der Suche nach der ”neuen Wirtschaft”. Neue Zürcher Zeitung. 18.3.2000.

the central idea about the dynamics of this trend, a picture of permanent high productivity growth, enabled by extraordinary technological progress. Economic analysts³ argued, that the new economy might be crisis free, because of the flexibility and the extraordinary growth potential provided by IT.

Recent debate, however, - likewise initiated by US-American analysts, -has focused on recent recession indicators and reflects **the simultaneous roles of both ‘technological’ and ‘financial markets’**. As stated in the initial contribution (Business Week, October 2000⁴): *“The New Economy is more than a technological revolution; it’s a financial revolution as well – and that makes today’s economy far more volatile than most realize... If technology is the engine for the New Economy, then finance is the fuel... Without access to capital, the Internet Age would have arrived, but much more slowly... If the Old Economy was an automobile, the New Economy is an airplane. In an auto, if anything unexpected happens, the natural and correct response is to put on the brakes. But just as an airplane needs a certain airspeed in order to stay aloft, so the New Economy needs fast growth high-risk investment in innovation to be worthwhile”*.

In the further debate, this focus on both technological and financial reform was extended into a perspective on **a possible ‘downward economic spiral’**, - but only with the status of a worst-case scenario. The mechanisms were described in financial terms: The ‘pace of innovation’ has in this model been tied to the growth of the economy and the role of the stock markets. Reduced venture capital and less funding in Start-Ups would reduce the productivity growth, and renew inflationary pressures, - and so cause a tendency towards recession.

In the specific studies on **e-business**, however, this is not the dominant perspective and not the main scenario. The most widespread perspective, also in the German debate⁵, is directed, - with a more firm specific focus, - towards **the potential for qualitative jumps**, in the paradigmatic sense of this following interpretation: *“The technological revolution is still in its infancy, and several huge advances are just starting to take shape: Interactive television, Net-based medical care, or “e-health”. Global wireless Internet services.*

³ Greenspan for instance

⁴ Michael J. Mandel (the omissions are in the version by Krempf)

⁵ Ludewig (2000), Ringlstetter (2001)

*These are giant industry shifts, which take time to mature, and require progress in core technologies”.*⁶

In general, however, recent developments and the increasing critical intonations have put the ‘New Economy’ into perspective. They have intensified the reflections on the role of the ‘old’. The simple term of **‘One Economy’** is the most frequently used about the possible diffusion of new and old. In the German business debate, the magazine ‘Wirtschaftswoche’ used the headline of ‘True Economy’ when reflecting a changed agenda, away from ‘stock exchange air bubbles’, towards a broad realization of new technologies in the whole of the general structures. The **‘return’ of the traditional companies**, signals a much broader realisation of the potentials of the Internet. The potential assimilation in the ‘old’ economy of the innovative models, which have been developed by the small smart companies of the new, is one aspect. In this still more frequent perspective, analysts talk about the true realisation of the ‘Internet-Revolution’ “...*transforming e-commerce from a blip on the economic radar into the engine of industry*”.⁷ The term of a ‘Productivity Revolution’ may be exaggerated, but the development towards convergence of new and established industry is increasingly discussed under the rather weak term of ‘One Economy’.

‘New Economy’ might thus end up as description for only a specific stage. But today it is still the collective term for the new dynamic of changes in the economic sphere. And – at least in the German context, - it is still the specific social term for the renewal by the Start-Ups, the new generation of founders of small innovative Internet Firms.

In more scientific terms and in the European debate the term **‘Internet Economy’** is used in the European Communication Council Report⁸ as an overall term of the digitalisation of the economy. The focus is mainly on the Communication- and Internet-Sectors, but also on the new subjects of political regulation.

Finally, and preferred in the context of this paper, **‘Information Economy’** would be a more precise term for the integration of new and old sectors of the economy and the ‘diffusion’ of the organisational principles. This term also has connotations towards the

⁶ Christopher Farrell: “Case for Optimism”, quoted by Krempf.

⁷ Reingold, J, Stepanek, M.: Why the Productivity Revolution Will Spread. Business Week, Feb. 14, 2000

⁸ Zerdick, A. et al. (2001): Die Internet-Ökonomie. Strategien für die digitale Wirtschaft. Berlin

broader sociological perspective on the transformation from 'industrial age' into the 'information age' and the 'Knowledge-Society'. In this perspective, the current changes are defined as processes with potential for and dimensions of wide-scale reform of modern society (Castells 1996, Beck 1998, Wiesenthal 1999). A societal development, first taking place in the economic sphere and, to a wide extent, driven by economic dynamics.

In comparative studies, there is a very inspiring new subject of 'net-cultures' or 'Start-Up cultures in international comparison' (Krempf), - but still there is also a very important project of trying to combine this new development to the existing **sociological paradigms of 'comparing models of capitalism'** (Lane 1995, Crouch and Streeck 1997, Cattero 1998, Heidenreich 1999). The probable future agenda of integration between new and old sectors and companies, might call for the detailed knowledge about the specific structures and traditions of the various models. The sociological disciplines have struggled during the last decade for transforming their perspective into coupling the comparative studies of national systems to the dynamics of economic development. As an overall discourse, together these studies have the perspective needed on **globalisation and technological revolution**. The challenges for classical sociology are enormous; the testing of the viability of existing concepts, in the light of the speed and radicalism of current changes, is an open experiment. The German sociological discussion has to a wide extent integrated the 'globalisation', but the 'internet revolution' is still left over to the business economists. Nevertheless the economic-sociological knowledge fund has the platform for integrating 'new' and 'old', for focusing not only on change but also on stability, and for taking variability into consideration. In a recent analysis, a leading German sociologist defines 'globalisation' as **'a bunch of still uncompleted processes of change'** (Wiesenthal 1999), and he ends up defining it as a crucial agenda of sociology to quickly intensify the comparative knowledge about the variety of pathways and the various economic models. This is the general perspective in my research on the 'New Economy' development in Berlin and Germany: First of all 'new' in relation to itself, but also related to existing structures and to discussion on the change of the 'traditional'.

In the following I am not giving a full presentation of the 'German institutional model'⁹ but single out certain aspects. These are discussion points for the differences between the US-American and the German model on the one hand, and on the other hand some of them are relevant for the conditions around the development of the Start-Ups.

Change in the 'system of Innovation' in Germany

During the last decade of indisputable US-American high-technological leadership there has been a very polarised, very intensive and critical debate about the German model, particularly in Germany¹⁰. Several international studies contrasted the basic structural principles of the American and the German model under the perspective of shareholder vs. stakeholder principles; many international studies simply diagnosed a falling behind for the German economy¹¹. Critical points have been over-industrialisation at the costs of the service-sector development, another point the strong role of the 'traditional banks' and a possible 'lack of venture capital markets', and finally structural barriers against the founding of new firms.

The comparative economic sociological debate on '**convergence**' versus '**divergence**' of models of capitalism operates with a similar typology of models: A particularly 'organised' German capitalism - institutionalised and regulated - is put into perspective by the contrast to the more 'de-regulated' Anglo-saxon models. The German sociologist Heidenreich¹² discusses the question of a development towards 'convergence' of national models: The 'knowledge-society' is globally organised and trans-national flows of capital, products, service and information become still more essential. Will deregulation, liberalisation and globalisation mean the end of 'plurality', the end of relatively autonomous models of production and society? If it were true that the future **only** belonged to the more liberal, less embedded market economies of the Anglo-Saxon type, it would have far-reaching consequences for the European societies (p. 312-313).

⁹ Full discussion is given by: Lane (1995), Streeck (1997), Cattero et al. (1998), Naschold et al. (1997), and less theory-based Albert (1994)

¹⁰ Representative for the critical, offensive part of the public 'Standortdebatte' recommending (neo)liberal solutions: Berth (1998) and Methfessel, Winterberg (1998). Examples of the scientific debate on the institutional model: Cattero (1998), Naschold (1997)

¹¹ References and discussion for instance by Methfessel, Winterberg (1998, Chapter 2) or by Heidenreich (1999, p. 306). For the opposite focus on an offensive renaissance: Meyer-Larsen (2000)

¹² Heidenreich, Martin (1999): Gibt es einen europäischen Weg in die Wissensgesellschaft? Soziale Welt 13

Like the majority of authors Heidenreich still argues for the further existence **of a specific European way**. Instead of a focus on 'deficits' in the German model, German discussion most often struggles to capture a position for further knowledge on the differences, on the specific. This focus was always the basic idea of the classical studies of institutional sociology, - the European theory of 'national business systems'¹³ -, which has been widely concentrated on the comparison of the 'big 3': Great Britain, Germany and France.

Recent studies on '**National Systems of Innovation**'¹⁴ capture new positions for studying the differences between the USA and Germany by integrating the perspective of the Porter-tradition¹⁵ and developing it further¹⁶. In some respect, it may seem ten years too late, but there is no better basis at the moment for the deeper understanding of the specific continental European tradition, in the new context of contrasting to the USA. What is needed from the European point of view is the focus in the Porter Tradition on '**national specialisation**' and the basic thesis of a 'global division of work' among various national models.

This gives the focus needed on *different* advantages as well as *specific* challenges and problems. The analytical approach in short: The perspective contrasts 'innovation regimes' and diagnosis a dominance of '**incremental**'¹⁷ innovation in the German case against the more '**radical**' strategies of innovation in the more 'de-regulated' Anglo-Saxon models. These differences are connected to a specialisation in industries: In the German case a strong position in medium-level-technology, established industries and high-quality products, in the Anglo-Saxon model a high technology and service-sector specialisation. The thesis is that different sectors call for special models of innovation. The German specialisation on incremental further development of existing technology and accumulated knowledge is particularly adequate in the medium-technological sectors, and the Anglo-Saxon model particularly adequate in the high-technological, radical modus of change. The further analytical framework integrates educational systems and institutions, company

¹³ Whitley 1992, Lane 1995

¹⁴ The approaches of Lundvall, Nelson and Freeman were developed almost simultaneously in the nineties. See Heidenreich (1999)

¹⁵ Porter, M. (1990): The Competitive Advantage of Nations. 1990

¹⁶ Example in studies on Germany are Soskice (1997) and Heidenreich (1999)

¹⁷ By Porter: 'High-quality, Incremental Innovation Strategy' (Soskice 1997, p. 319)

structures and organisational principles, systems of industrial relations etc. in the perspective on **'comparative institutional advantages'**.

These **technological specialisation profiles** prove themselves to be useful also for the study of the transformation from 'industrial' to 'information age', - so in the study by Heidenreich in 1999: **Is there a European way into the 'Knowledge Society'?**¹⁸

His thesis is 'yes', but he leaves the final question open: Whether the advantages of the industrial models are particularly adequate for the future process. He defines the 'knowledge society' as: "A society, the economic performance of which, is not first of all depending on the volume of work and capital, but on the organisation of social relations (communication) and the ability to create flexible recombination and productive utilisation of knowledge in systematic ways"¹⁹ (p. 294). The ability to convert experience and knowledge into innovative products and services is the economic core centre of the knowledge society. **Indicators of the 'knowledge society'** are: Increase in knowledge- and communication activities, increased importance of qualified workforces, of systematic Research & Development, of product- and process innovation, and increased use of information- and communication systems based on technological networks.

His study defines **'innovation'** as the core issue for knowledge societies, and he argues for a specific model in Continental- and North European states: The **'innovation regimes'** are more **embedded in societal structures**, as a result of their historical industrialisation process. These countries are more strongly industrialised. The 'Business sphere' is in these states less separated out. This gives a particular industrial determination of their innovation regimes. Service activities and jobs are often integrated in the industry (p. 313), which also means that statistics measuring the volume of service sector representation are often misleading.

What is important in the context of this paper is the fundamentally different 'modus of change' and innovation. This gives a different position for analysing the process than those given in many international trend analyses. The underlying question, whether these **institutionally 'rich' models of development** of the classical industry states are viable in the process of knowledge revolution and information age, - is answered by Heidenreich as

¹⁸ See reference no. 12

¹⁹ Heidenreich 1999, p. 294. (My translation)

follows: They will have to be able to utilise their institutional 'richness' as the basis of structurally embedded innovation strategies in this process too (p. 316).

The point in relation to the 'new economy' is that also studies on start-up cultures and the 'internet revolution' will have to cope with this particularly institutionalised model and the particular innovation regime of the strongly industrialised state and its societal structures.

The development around the second key discussion point, the '**financial systems**', appears to document this modus of incremental innovation. There seems to be a successful integration of basic principles from the different 'Anglo-Saxon model', but without basic reform of the German structural model. In the context of the very intensive debate **the strong, traditional role of the German Bank-System** has been questioned under the perspective of possible shortcoming of 'shareholder values', stock markets and Venture Capital²⁰. A study of the German model of 'corporate governance' concludes that the basic differences to the Anglo-Saxon models still exist: The traditional banks are still **in the centre of the financial systems**, and the structures largely intact. Institutional investors and funds play a secondary role. At the same time, however, there is still EU-, international- and domestic pressure for openings, and the direction towards USA principles is noticeable. But these openings and innovations are still compatible with the traditional structures and roles of the German banks, - and they are compatible with continued efforts to cut off **company control** in Germany from aggressive influence from financial markets, - which has been a key subject of the discussion²¹.

A third crucial comparative discussion point has been questions of structural barriers in the German system against **the founding of new firms**, caused by the particularly strong alliances between the banks and the large companies of the traditional industries, and also further manifested in the strategies of the strong sector associations in the German system of industrial relations. In US-comparison the **transfer of knowledge from universities to business practice** has been highlighted as a weak point in Germany. Again, this difference has to be analysed in connection to institutional structures of 'innovation' and knowledge development. The study by Heidenreich²² explains the different 'externalisation'

²⁰ For an introduction to the basic structural principles of the German bank system see Lane 1995

²¹ D'Alessio and Overbeck (1998)

²² Heidenreich (1999) p. 305 and 319

of R&D in the US-American system, different from the 'embedded', incremental knowledge aggregation in the German firms. Still, there is a structural difference in the educational levels and profiles of the founders of small firms, a larger group of academics in the US-American system, and a stronger commitment in the German system towards medium-level and technical educations, rather than business management and company external service disciplines.

In the German case the difference has been discussed as not only a structural deficit in the field of establishing new and young enterprises in the new sectors but also a general weakness in and about 'entrepreneurship'²³. This focus in the debate about the German model, - on needs for a better culture for setting up new business activity and founding new firms, - is also most often part of the background of the focus on the Start-Up scene. Seen as a whole, the traditional models are in the current period of globalisation and technological revolution involved in radically intensified competitive markets, terms of trade and pace of change. There are clear signs in the dimensions and discussion points selected here, that the German system integrates both economic and organisational principles from the Anglo-Saxon models. Probably nobody would dare to estimate the dimensions and the long-term effects so far.

But the results from the sociological studies can be taken over as perspectives to develop further: The incremental modus of change in the system as a whole, the need for considering the societal embeddedness of economic activity, as well as the thesis of an industrial profile in the Continental European states, also in the development of the 'knowledge society' and the 'internet age'.

The new economy introduces practices and new institutions of the 'radical' modus of innovation into the German incremental regime, such as mediating venture capital firms, the stock markets for the new economy, new subjects and initiatives of political regulation, new types of firms with different structures, organisational forms, payment systems and new attitudes. The following close-up, interview study of the New Economy scene in Berlin examines such new organisations, but without the ambition of a theoretical assessment of the impact of such innovation-networks on the German model as a whole.

²³ Ripsas (1997) defines entrepreneurship as „the perception, creation and utilisation of market opportunities“ (In the German original: „Entrepreneurship/Unternehmertum ist das Erkennen, Schaffen und Nutzen von Marktchancen“) (p. 275)

Interview Study of the Start-Up scene in Berlin

The interview partners in Berlin were selected at a background of literature, the public media debate and the Internet. The initial contact was made by e-mail. All the interview partners had some kind of positions in organisations and the public debate, and they all gave positive answers. The organisations are representative for the new economy scene in the sense that they are the most important and well known.

All interviews were taped and have been transcribed.

In the interviews, the point of departure in each case was the homepage and questions to the organisation. The interview partners were well informed about the general debate about the German model. On that background, there was also immediate understanding for the preference for a focus on the new institutions and networks.

The interview guide for semi-structured interviews was predisposed around the overall themes that are also used in the following analysis: The nature of the single organisation, its function and the role of its networks.

The role of institutions, organisations and networks

The presentation of the institutions and networks of the Start-Up scene is held in the perspective on the specific organisation and ends up with a short clarification, reflecting, what is 'new' and the relation to existing institutions and structures.

The examination starts with the organisations of the Venture Capital Scene and is followed in the second part by the networks and organisations of the Start-Ups. The boom in Berlin during the last years is in both areas, both venture capital firms and start-ups.

'Existenzgründer-Institut' Berlin. ('Institute for the Founding of Firms).

The 'Existenzgründer-Institut', was established in 1996 and was originally known for arranging 'Business Plan Competitions' for Start-Ups. It has a close connection to the City of Berlin and its public investment banking. But as an organisation, it wants to stay independent and has a structural position as a kind of matrix organisation, outside and connected. In explicit terms: because of the 'flexibility' *outside* the bureaucratic system. The institute is small, about a handful of persons, carried by an external sponsoring

association. The original founding initiative came from a young business economist, still the head manager, who brought along some of the main ideas from his study in the USA, and who publishes scientific literature in Germany on 'entrepreneurship'²⁴. The main activities of the institute today are: 'University Networks' and 'Matchmaking events'. The latter are for instance specific meetings described as 'Entrepreneurship forums', 'e-forums', which are only one element of the general activity of networking around VC and Start-Ups. The main specialisation is on Information- and Biotechnology, i.e. particularly technology-innovative and high-growth intensive projects.

The activities at the universities are educational programs around the subject of founding of firms. They are arranged on a scientific basis, in cooperation with professors, but partly also *for* these in the sense of 'training the trainers' - and for the students.

About the role and the functions it can be summarised that the small institute has a 'transfer-function' around building up networks for the development of 'entrepreneurship' and 'small firm founding'. It is initiator and communicator of knowledge, but has close, steady relations to city administration and universities, and it communicates contact between firms and persons also in private business. The organisation is new in Berlin, and the activity is new in the structures of the city and the universities, but the activities are integrated in the established structures and institutions rather than competitive to these.

Bundesverband der Kreditinstitute (BVK),

The next institution is a **sector association for venture capital firms and funds in Berlin**. It was founded new in 1989, based on a traditional association. The manager describes the roots so, that during the 1980es a Venture Capital wave grew in Germany and in other European countries: What is Venture Capital? What is a Venture Capital Fund? Investment Banking was not unknown, but what was different in the 'American Model'? In the 1980es Fundraising and New Funds were established exclusively for the financing of 'High-tech Start-ups' and for matchmaking. But the activity did not function at that time: There were not that many High-tech Start-Ups, and the industry firms did not see the point and withdrew their investments from the funds. In the words of the manager:

²⁴ Ripsas, S. (1997)

Because the structures in Germany are different, and because of the island position of Berlin at that time.

Today the Venture Capital Association had about 165 funds as regular members and 45 consulting firms as associated members. The activity field is Berlin exclusively. Explained by the manager, **the Venture Capital scene** has developed particularly fast in Berlin, because of the restructuring of research institutes and economic structures. He terms it a regular 'boom' in venture capital growth and firm establishing, many Venture Capitalist firms have established their headquarters in Berlin.

Beside this he mentions regular **state programs**. Pilot-experiments, ('Modellversuche'), which were limited in time, were directed towards small technology firms, and particularly towards 'early stage' financing. Up till 1999 investment funds had the opportunity of co-investments from state institutions, or programs of refinancing, which reduced their own risk to about 30 to 50%. The overall objective of the programs had been a development of '**early stage segments**' in the Venture Capital market. This destination is reached today, Investors of this segment are about one third, - higher than in the United States, according to the top-manager of the association. Further political programs, simply by the means of tax reduction, will be directed towards spin-offs, Buy Outs and the general "generation problems" in the sector of small and medium sized firms.

Beside the political programs the manager mentions a change in 'Mentality and Culture'. One factor has been a general change in the culture around stock markets, helped by the media and the changed financial strategies of large companies.

The question of a reduced role of the traditional banks is reflected in the context of the current intensive and basic restructuring of the banking sector as a whole, caused by the new technology and the new orientation towards Investment-Banking. The first move of buying British or American investment banks has been followed by the second move of the large banks gradually building up of their own venture capital funds, particularly for the large customers, in addition to the tradition functions as universal banks.

The engagement of the banks in smaller firms has been reduced in this process, and the new culture around equity capital in general has increased the role of private investment funds. The BVK mentions on its homepage the figure of 32.000 examined projects pro year, and figure of the general inquiries was much higher.

The sector association BVK is the only institution in this study that is more than five years old. The organisation is a classical association in the German structure of 'interest organisations'. It's role and activity has grown with the fast development of the Venture Capital scene in Berlin over the last few years. This development is explained by the three factors of: State programs of subvention, the re-structuring of the City of Berlin, and a general change in mentality and culture around stock markets.

The increased role of the BVK as an institution is part of the extensive restructuring of the large traditional banking sector and the financial markets as a whole.

Venture Capital Firms: 3i Germany. Region Berlin

The next two organisations are Venture capital funds. 3i is a **classical Venture Capital Company**. It was founded in London, and has worked in Germany since the early 1990es. The activity is equity capital investments, i.e. providing capital resources against property rights in the companies. The field is the whole spectre, no particular specialisation on 'early stage'. Other fields are Spin Offs from established companies or restructuring of existing companies. 3i has no 'incubator' function in the conception phase of Start-Ups, - it has no consultation activity, **only investment activity**. There is no specialisation on specific sectors.

The manager of 3i explains the potential crisis for smaller, very specialised venture capital companies: in the case of falling stock markets, the companies with only small funds are not able to finance the further parts of the process for the firms in which they have invested.

Asked about the role of the venture capital companies and the traditional role of the German banks, the 3i-manager underlines that the VC market is **no predatory competition to the banks**, both parts profit from the activities of the New Economy. He ends up concluding that the Venture Capital market is a supplement, no competition. Bank loans are still cheaper, and owners do not have to give away any company share by bank credits. To the theme of the state subvention and programs, the 3i-manager meant, that these programs speeded up the venture capital market a little. It had a certain initial function, but in his focus the boom in the Start-Up scene definitely has other roots: He mentions the technological development, the new economy stock markets and the Internet-boom, together with the general impulses from the USA-projection.

3i has been the early stage investor and provided networks abroad to 'Intershop', one of the largest and most successful German Internet Start-Up, which worked in both Germany and the USA, but has afterwards experienced a radical reduction through the development at the stock markets. Seen as a whole, the 3i manager used the term of 'normalisation' about the second phase of the new economy after the initial boom of rapid growth. The interpretation was a return of economic rationality in a salutary sense.

As an organisation in the New Economy scene 3i is a classical company of investment banking: The activity is the purely classic, without the consultancy activity carried out by other venture capitalists. The role of the networks of the organisation is first of all the professional networks worldwide of the large investment house. The manager of 3i Berlin saw the general role of private equity capital and the venture capital market as supplementary to the traditional bank sector and traditional bank activity, without any noticeable predatory competition.

Venture Capital Firms: Econa Investment House.

Econa is the first Venture Capital organisation in Germany, which also carried a function as 'Incubator' particularly for Internet Start-Ups. The investment company was founded in June 1999, by 4 persons, who themselves were Start-Ups. They had functioned as 'Business Angels', - as private investors and advisors - for others and decided to institutionalise that function into a firm. The function 'Incubator' has no steady definition, but beside the money the incubator assists during the process of developing the concepts, the business plan and also the execution. The incubator is 'a permanent partner' during the whole start-up process, and his professional networks are a key support.

The company is specialised on firms in the media sector, the original investment sum was 25 Mio. Mark. Econa had invested in only 1% of the inquiries and business plan ideas received in the company. In the focus of the information manager of Econa, the new Venture Capital sector was a crucial basis of the rapid growth of a quite new Start-Up culture in Germany, but in structural terms no competition to the traditional banks.

Econa is the first investment house in Berlin with the specific incubator function and specialised on Internet Start Ups. As a small and specialised Venture Capitalist firm, it is vulnerable in the sense described by 3i, and its role is much stronger dependent on stock market reductions. Its homepage is reduced compared to the time of the interview.

New Networks of the Start-Up Scene: 'First Tuesday'

'First Tuesday' is a **meeting Forum** for the Start-Up scene, founded in 1999²⁵. The basic idea is **matchmaking**. The idea comes from London, and Econa has been founding team in Berlin. Three groups of actors are invited in the network: Venture capitalists, Start-Ups and Advisors (consultants etc.). The form is a monthly meeting on the first Tuesday, and the organisation is privately sponsored. Each meeting has a theme and a plenary discussion, beside this it offers the opportunity to meet and establish matchmaking. After about a year, there was a crisis noticeable in the interviews. The symptom was described almost the same everywhere: the forum had grown very large, 600-700 people came and the majority part were advisors. The Start-Ups were increasingly absent. The explanations in the interviews, given primarily by the Start-Ups, were that it was too less important. The plenary themes were not relevant and interesting enough. One interview person gave the explanation that First Tuesday had not succeeded in establishing a singular function for the organisation.²⁶ Still, the organisation is further growing, and its information and events are visible in the public media.

New Networks in the Start-Up Scene: 'Berlin Start-Up'

'Berlin Start-Up is first of all a 'portal on the Internet': A web site of matchmaking. The idea was established at a First Tuesday meeting, and the objective is the same: an instrument for mutual information. The overall purpose of the Web Site is to give a full picture of the whole Start-Up scene in Berlin. The idea is a forum for direct networking and promotion, an attractive place for mutual advertising and information for all the 3 groups: Investors, Start-Ups and consultants. The basic argument was that all actors in the new economy scene have extraordinary needs for communicating and cooperating. The financial basis is private sponsoring plus 100 Mark fee for registration on the site. The organisation around it is a small group working in an office located in East Berlin, with some initial marginal assistance from the City. Its primary role is practical networking and information activity, and as an organisation it is in a process developing groups and competences around the

²⁵ The description of First Tuesday is not based on a specific interview with the organisation, only on its own press information and the description given by the interview partner from Econa and the other interviews of this study.

²⁶ The September Meeting 2001 had in the headline the question: Venture Capital – are there still Start-Ups?

future technologies, extending the general role of the organisation as a place of experiments.

Both organisations have the purpose of 'matchmaking' and communication as their primary agenda. The communication forum of Berlin Start-Up is permanently within reach on the Internet. The organisational form is an experimenting network with the purpose of quick, ad hoc matchmaking and process information. Between the two organisations there is simply a division of work. First Tuesday is steadily growing as an organiser of large, public events and overall business political discussion, whereas the Berlin Start-up is an experimental scene and location for actors who are testing future potential of technology and communication.

Networks of the Start-Up Scene: E-nef: European Net Economy Forum

The explanation to the e-nef forum, given by the administrator was: "The European Net Economy Forum is in principle the admission of the New Economy scene to the political system in Germany which simply is so very strongly association oriented"²⁷. E-nef is not an open forum but an association of a group of Internet Start-Ups with the objective of internal work division and networking. But the activity is also **external interest politics** and activity towards political influence. An example mentioned, was the Green Card initiative, in which the politics had only eyes for supporting established larger firms with Internet expertise, but had not included the Internet Start-Ups. This originally provoked the building of e-nef as a common platform. The administrator of e-nef, a solicitor, worked both ways: he is also a **consultant for established politics** in Berlin, Germany and Europe around new laws which involve questions of the development of the New Economy and Internet Firms. The E-Nef Forum thus functions as a speaker for the Internet scene, and it was not only to politics but also to press and media.

Asked about the competition between the organisations as well as between the individual Start-Ups, the spokesman explained that the circles were still very small and the markets so large that the small firms did not really get in the way of each other.

One function of this organisation is the 'forum' as an internal network for members of a group of Start-Ups, but the strongest function was the external role of the organisation as a political instrument for shaping the role and the profile of the Internet scene in the public

²⁷ Interview E-Nef p. 1

media and in the planning political structures. The E-Nef forum is to a wide extent a public political instrument, and the European dimension in the name refers to the political dialogue more than to international contacts.

Networks of the Start-Up Scene – ‘Silicon City’

Silicon City is a Germany-wide network operating in a number of cities, and the contact is intensive. Silicon City is **the biggest German association for Internet Start-Ups**. The founding initiative arose in Berlin in 1999 from two of the most successful Start-Ups. The organisation was described as a ‘network of and for founders of Internet Start-Ups’ as a circle for exchange of ideas and experience, not a closed circle, but still a community for ‘people with very good ideas’, and a discussion forum for the founders themselves. The structure has a formal spokesman chosen for a period of a year. New members have to be recommended by two existing, and there is a criteria catalogue with formal claims for relevant firms to represent, also about the size of the investment sums. In the words of the actual spokesman: Silicon City is and must be a **‘mark of quality’**.²⁸ What was underlined was that the serious **thematic work** should remain the centre of the activity and the communication. The term ‘club for the elite’ was accepted from both spokesmen. The formal meetings are arranged regionally, mostly every month. Asked about competition between the regions, possible tension between Berlin and West German cities, the answer was: Not at all and on the contrary, the cooperation was important both ways.

The Silicon City network has the overall primary role of exchanging directly relevant, important information among the founders themselves, and among the most busy and most successful Start-Ups. It is a countrywide formal network for professional cooperation and information. As a secondary function, the organisation is a public instrument too, but rather in the sense of information and promotion.

Start-Ups – new internal organisational forms

Beside the external roles and functions the Internet Start-Ups experiment with new organisational models and collective work forms in the internal work practice. The organisational form in all the three Start-Ups interviewed was the typical factory building

²⁸ Interview: Kindercampus p. 7.

with an open-plan-office. The benefit was described as freedom from formalising internal procedures and communication, i.e. it was seen as a realisation of flat hierarchies and team organisation. All three firms had about 60 people working, and one of them described the 'speed' as the primary advantage of start-ups compared to established firms. But also the 'cheap' company was described a particular characteristic of the Start-Up scene in Berlin. One element was extraordinary cheap buildings available in the niches of the restructuring city, and another aspect was the informal cultural codes resulting from the freedom from intensive cooperation with the established business world, described as very different from the start-up scenes in other cities. The professional backgrounds of founders and a majority of the employees was business economics, and most often they came directly from the university. Extended working time as well as payment forms of low salaries and company share were described as mutual arrangements between the firm and the employees, motivated by the particular professional opportunities and chances to experiment.

Conclusion

The purpose of this study was to examine the dimensions of the recent development around the new economy and start-ups in Berlin. In the general perspective of the paper this examination is related to the question of reform or erosion of the German model as a whole. Critical discussion in both international analysis and German domestic debate has contrasted the institutionally embedded German capitalism to the more deregulated and market-driven Anglo-saxon economies. Widespread interpretations have recommended or diagnosed a change of the German model in favour of the Anglo-saxon principles. The discussion in this paper presented economic-sociological analyses, which are oriented towards deepening the analytical knowledge on the differences and the specificity of the German model. Based on the Porter definitions, these studies focus, in typological terms, on the 'incremental' modus of innovation in the German system, contrasted to the 'radical' modus of change in Anglo-Saxon institutional forms. Elements of and orientation towards the radical modus of change enter the German system with the new technologies and the new economy. This was the background of the question of dimensions in the study of the 'New economy' scene in Berlin.

The point of gravity was on the new activities and the roles of the institutions and networks around Venture Capital and Start-Ups. The study has examined their constitution, role and function as organisations in the start-up scene and in relation to the public sphere. Seen in the context of the established institutional system in Germany the new organisations and impulses from the Start-Up culture seem in the formal dimensions to be rather marginal. Venture capital structures expand without reducing the traditional dominance of the banking sector. The new organisations and networks of the start-up scene are above all internal networks of communication, or they appear to have primarily a spokesman function of image creating or political complexion of the scene. They appear as organisations and new impulses, which are absolutely compatible with the existing system and social structures. In the overall perspective the German system seems to have integrated the elements of the radical-change-modus in an incremental way, without basic reforms of the fundamental organisational principles of the national model.

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VC-Companies

3i.Deutschland

Econa Investment House

Networks of the Start-Up Scene:

First Tuesday

Berlin Start-Up

E-neff, European Net Economy Forum

Silicon City Berlin

Start-Ups

Datango.de

Kindercampus.de

Jamba.de

